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THE ROUND TABLE

A QUARTERLY REVIEW OF THE POLITICS OF THE
BRITISH COMMONWEALTH.

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- The International Crisis
- Imperial Preference
- China, Japan and Manchuria
- The Results of the Round Table Conference
- Reparations in Practice
- The United States in the New Year
- India The Struggle with Congress
- Great Britain Tariff Reform
- The Irish Free State
- The General Election—The Shannon Muddle and Other Matters*
- Canada The Railway Problem
- Australia
- The Federal Elections—The Reduction of Interest*
- South Africa
- The Political Situation—The Battle of the Gold Standard*
- New Zealand
- The Coalition—The New Financial Policy—The General Election*

MARCH

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NUMBER 86

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NOTE

THE ROUND TABLE is a co-operative enterprise conducted by people who dwell in all parts of the British Commonwealth, and whose aim is to publish once a quarter a comprehensive review of Imperial politics, free from the bias of local party issues. The affairs of **THE ROUND TABLE** in each portion of the Commonwealth are in the hands of local residents who are responsible for all articles on the politics of their own country. It is hoped that in this way **THE ROUND TABLE** will reflect the current opinions of all parts about Imperial problems, and at the same time present a survey of them as a whole. While no article will be published in the interest of any political party, articles may from time to time be published explaining the standpoint of particular parties or sections of opinion. In such cases, however, the character of the article will be made clear by an introductory note.

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THE INTERNATIONAL CRISIS

I. A LULL IN THE STORM

In contrast to the previous six months of hurricane, the last three have seen a lull in the storm. They have not been marked by any such world-shaking events as the Hoover Moratorium in June, Germany's "Black Monday" in July, the dramatic fall of the British Government in August, the sudden departure of England and other countries from the gold standard in September, and the amazing general election of October. There have even been some reassuring symptoms, which have led to a faint revival of confidence on the stock exchanges and to what is vaguely termed "a better feeling" in business. In America private hoarding seems to have been arrested, the President's financial measures have to some extent restored faith in the soundness of the banking system, the tone of Wall Street is more buoyant, despite the growth of unemployment, the persistent low levels of production and prices, a huge budget deficit and the threatened insolvency of New York, Chicago, and Philadelphia. In England, the prospect of a balanced budget, the steadiness of internal prices, the absence of currency inflation and of panic have gone some way towards dissipating the fears of immediate and general collapse in Europe that were entertained in the autumn. In Germany, the political situation has become noticeably more stable since Dr. Brüning has shown his determination to preserve order and to take drastic measures to improve the economic

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position. In France, the rapid growth of unemployment has brought home the truth that, despite her gold stocks and her comparative self-sufficiency, she is not immune from the depression. Though her growing difficulties are but another proof of the deepening of the crisis, they may eventually infuse a better understanding of the troubles of others and with it the beginnings of a more conciliatory spirit. All these items on the credit side of the balance sheet are worth faithfully recording, not only on account of their intrinsic value, which it is only too easy to overestimate, but because they have lifted, if only slightly, the blanket of hopeless pessimism which was exercising a numbing influence upon every upward movement.

II. THE DECLINE OF TRADE

FOR all these pale rays of light, however, the needle of the economic barometer remains firmly set at "stormy." A glance at the debit side of the account shows that it is still overwhelming. None of the fundamental features of the crisis, political, monetary or commercial, has yet been radically dealt with. As a consequence, paralysis has continued to gain ground through the greater part of the world's economic system. Issues of capital are rapidly drying up. During the last quarter of 1931 they reached incredibly low figures in London and New York, neither of which lent a penny to any foreign country. The number of bankruptcies continued very high in Germany, Italy and the United States, and showed signs of sharp increase in France during the last few months. In spite of a large favourable commercial balance, the gold reserves of the Reichsbank continued to melt away. Commodity prices showed little sign of rising, though a tendency to stability during the last months of the year suggested the hope that they might now have touched bottom. Production indices still sagged slowly downwards. Dammed

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by artificial barriers growing almost weekly in number and variety, international trade shrank into ever narrower limits. As it shrank, the scramble to secure export trade at any cost became intensified, and the determination to prevent imports more desperate, especially in countries unable to borrow abroad whose trade balance remained their only asset for meeting their external obligations. Hence, in addition to tariffs, quotas, prohibitions and other purely commercial obstacles, the Governments of 13 countries in Europe and 8 countries in South America had by January forbidden the purchase of foreign currencies, except with the permission of their central banks or some other authority, which is rarely and capriciously granted. In central Europe "standstill," which is already the *mot d'ordre* for finance, will shortly be the fact in commerce also. Already we see the fantastic spectacle of Hungarian weavers unable to obtain sterling offering pigs in exchange for Lancashire yarns with which to keep their mills going and their people employed. The only logical consequence of State control over dealings in foreign exchange is its extension to all foreign commerce. The Bruning decrees have already obliterated many of the characteristic features of individualist economy in Germany. The creation of trading corporations on the Soviet model to handle all Germany's external trade seems to be an almost inevitable completion of the system, nor would it be particularly difficult to reconcile with German conceptions of the functions of Government. Indeed, those who can afford to look on current history with a philosophical eye may be disposed to wonder whether we are not already embarked upon a transitional voyage, with the shores of nineteenth-century individualism already fading into the past, and some unknown haven of well or badly "managed economy" awaiting us in the future.

But putting aside this interesting, if uninviting speculation, it is not difficult to sum up the net result of this internecine commercial warfare, which has proceeded from

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the complete derangement of the world's financial system. There are only three methods of effecting international payments—through gold, credit, or goods and services. No country, except France, Holland, Switzerland and the United States, has sufficient reserves to enable it to meet any substantial deficit on international payments, however temporary, by shipping gold. This method is therefore practically eliminated. The destruction of confidence has almost arrested the extension of credit by those countries which are in a position to furnish it. Moreover, existing debts, both public and private, have been multiplied to such an extent by the fall of prices that debtors, whether they be States or individuals, are prepared to make every effort to avoid assuming the burden of any further indebtedness. A farmer in eastern Europe now has to provide three times as much wheat to meet the interest on loans or mortgages as he needed a few years ago. In these circumstances credit has largely ceased to perform its commercial function, to the immense detriment of trade. There remains only payment in goods. If there were no tariff barriers in the creditor countries, no difficulty would arise. England became the greatest creditor country in the world by keeping an open market, in which all her debtors could sell their goods. This meant that she had a deficit in her visible trade balance, but a large surplus on her balance of payments. If, during the past five years, the debtors of France and the United States had been able to pay what they owed in goods, a great deal of the present trouble would have been avoided. But both France and the United States are highly protectionist countries by tradition. They would not lower their tariffs in order to admit their debtors' payments in kind for fear of upsetting their domestic production. As long as they were prepared to extend credit to debtor countries, no serious consequences followed, but from the time when they were no longer willing to lend, it became impossible to meet their claims in full except by heavy payments in gold. As they

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have now already received the great bulk of the gold available, most of their debtors have practically reached the position of being unable to pay at all.

Moreover, as the result of the slump in prices followed by the financial crisis, all countries owing money abroad—and that means the vast majority—being unable to use gold are seeking to preserve their balance of payments and their financial stability by paying their obligations in goods—that is to say, by exporting more than they import. Consequently they are endeavouring to stimulate exports and to limit imports. Germany, as the largest debtor, affords the outstanding example, and her special difficulties are described at length in another article in this number.* How is Germany to meet her external obligations? Her gold reserves are almost exhausted, she cannot obtain fresh credits, the markets for her goods are being steadily circumscribed. The nations to which she owes either reparations or private debts cannot hope to obtain the payment either of interest or capital as long as this state of affairs exists. Yet none of them is apparently disposed to take steps to facilitate her payments. The American tariff still stands as high as ever, France, Switzerland and Holland are imposing import quotas on various types of goods, and finally, Great Britain is busy building a tariff wall. The creditor countries are thus forcing Germany to insolvency. By protecting their home markets they are sacrificing their financial to what they believe to be their commercial interests.

But the plight of Germany is only some degrees worse than that of other debtor countries. As has been shown, there are many others desperately resorting to the same expedients—restrictions on foreign exchange, coupled with the attempt to increase exports and cut down imports—in order to obtain the means of facing their foreign debts and of safeguarding their monetary security. It is obvious that everybody cannot have a favourable trade balance

* See page 294.

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simultaneously. The result is that these measures largely defeat their own ends by greatly reducing the whole volume of international trade. The Economic Committee of the League of Nations calculated in January that the sum total of international commercial transactions had shrunk by no less than 40 per cent. in 1931 as compared with 1929. In other words, international trade is gradually coming to a standstill. The Committee was unable to discover any remedy as long as the financial crisis persisted. As they put it, they were "for the moment unable to formulate useful suggestions for trade policy, until the necessary solutions have been found in the field of international settlements and suitable alleviations and adjustments have been effected to relieve the financial tension."*

III. THE FINANCIAL DILEMMA

WHAT then are the financial measures that are available to restore the situation? They are by no means obscure, and may be broadly summarised under two headings -the suspension or cancellation of debts and the revival of international lending. Unfortunately, neither of these operations is of a purely technical character. Both are dependent on the solution of political problems of the first magnitude. As has been frequently emphasised in *THE ROUND TABLE*, the world's elaborate financial and commercial machinery has been constructed on international lines. The more its smooth working is interfered with by artificial obstructions aimed at achieving purely national aims, political or economic, the slower the rhythm of industry and commerce becomes and the more quickly does general prosperity decay. We are now witnessing the most lurid illustration so far afforded of this elementary truth. In the words of the foreign bankers who have just consented

* League of Nations Economic Committee. Report to the Council, January 20, 1932.

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at Berlin to prolong Germany's private credits for another year, "the present extreme crisis must bring home to all peoples of the world the fact that all countries grow poor together. The obverse is as true. All countries grow rich together. A lightening of burdens and a greater freedom of trade, enriching one country, will enrich all." Unhappily it does not require many sentences to prove that this lesson is still far from having been learnt, and that the application of the financial remedies, which are now generally recognised as imperative by all informed persons, is being fatally blocked by the want of co-operation and understanding between nations.

It is pretty universally agreed that the existence of reparation payments is one of the elements that have played a big part in bringing about the present crisis. It is certainly agreed by every competent person who has examined the situation that Germany cannot continue payments now or for some considerable time to come. It is generally accepted that cancellation of all reparation payments would lift a load and a fear from Europe, and would in all probability set the hands of the economic barometer moving once more upwards. In these circumstances, it might be thought that cancellation would appeal even to the French as an obvious step towards curing their own troubles, which are thickening every day. They are quite well aware that the receipts from reparations entered on the credit side of their budget will never be paid into their Treasury this year or next or the year after. But for political reasons, which will be considered in a moment, the French Government stands out like adamant for the maintenance of the Young Plan, which has been in its coffin for months. Its corpse is already disintegrating, but an extraordinary value is still attached to its skeleton.

A similar situation exists as regards the war debts owing to the United States. The President, acting on the advice of American bankers and economists, whose view is probably almost unanimous, proclaimed his famous one-year mora-

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torium in June. When Congress assembled in December, it grudgingly approved it, but vented its ill-humour by adding a rider intended to restrain the President from entering upon any negotiation for the reduction or cancellation of the debts. The majority of Congressmen probably know well enough that any substantial payments are unlikely for some time to come. Some of them probably realise that to wipe out the debts would contribute to reviving general prosperity to an extent which would swell the dwindling public revenues far more than the payment of all the European debt-instalments, even if they could be collected. But Congress, like the Chamber of Deputies, is hugging a skeleton for political reasons, which will be further analysed.

If the effort to raise the burden of debts and reparations is being thwarted by political considerations, the same obstacle stands still more formidably in the way of the other financial remedy- the resuscitation of international lending. Who can be the borrowers and who the lenders ? In their present turmoil neither India nor China supplies an inviting field for enterprise. There are few countries needing money in Europe or South America which can offer the necessary security. In the Spanish- and Portuguese-speaking countries of both continents, economic and political conditions are so disturbed as to offer little attraction to the investor. Central Europe is in no better condition. The internal state of Germany and Austria, though improved, can hardly be said to inspire confidence. With large credits frozen already, it is scarcely to be expected that the American, British, French, Dutch and Swiss bankers will look at any further demands for loans from those countries until the measures prescribed by the Basle Committees for their rehabilitation have been carried out and produced their effect. As long as there is unrest in central Europe, there is no feeling of security which would prompt the capitalist to tie up his money in Poland or the Balkan States. We are thus inexorably brought back to seeking first the

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exit from the political imbroglio, before any real hope can be entertained of emerging from the world depression. The Young Plan Committee in December arrived at precisely the same conclusion as did the Basle Bankers' Committee in August. "The adjustment of all inter-governmental debts (reparations and other war-debts) to the existing troubled situation of the world—and this adjustment should take place without delay if new disasters are to be avoided—is the only lasting step capable of re-establishing confidence, which is the very condition of economic stability and real peace." They too appealed to the Governments "to permit of no delay in coming to decisions which will bring an amelioration of this grave crisis which weighs so heavily on all alike." Nothing was done by the Governments between August and December in response to the cry of the Bankers' Committee. We may now proceed to examine the chances of greater heed being paid to this last exhortation, which rings more like a cry of distress than one of mere alarm.

IV. THE POLITICAL DILEMMA

WHEN one reflects for a moment on the incredible failure of the statesmen to act upon the unanimous warnings and recommendations of successive teams of experts, one is at first inclined to ask whether the great men of the world are all alike stricken with palsy. No one supposes that they are incapable of understanding the reports made to them and their implications. Mr. MacDonald, Mr. Hoover, M. Laval and Dr. Bruning are probably above the average of statesmen in intelligence, and all of them have at one time or another uttered words which show clearly enough that they comprehend the position and all its dangers. What then is the secret of their impotence? For those who believe that democracy with its inestimable privileges of liberty and licence is the best form of government, it is somewhat melancholy to reflect that at least until

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Mr. Chamberlain made the statement which is quoted later, Signor Mussolini was the only responsible Minister of a great country who had dared to speak the whole truth. He has openly advocated the *coup d'éponge* for reparations and war-debts alike, and one cannot help suspecting that he ventured to do so because he had no general election and no popular press to fear. Italy, too, would lose money, if no payments were received from Germany, but no Italian is in a position to run a demagogic campaign against cancellation. The appeals to the primitive instincts of uneducated opinion, which have been ruthlessly and unscrupulously launched in the United States, Great Britain, France and Germany, are impossible under a dictatorial régime, because they would be contrary to State policy. One is sometimes tempted to wonder whether the world would be wallowing in its present troubles if the rulers of the other four great countries concerned had the same freedom of action. But each of them has to take his country as he finds it, and their difficulties become apparent quickly enough when their political situation is reviewed.

Of the four leaders of democratic countries Mr. MacDonald is in by far the most fortunate position. He at least has got his election over with considerable success. Though the Prime Minister is not free from internal embarrassments, he is able to pursue a foreign policy, upon which in many of its essential features all parties are broadly agreed. In particular, since the date of the Balfour Note there has been no serious division of opinion in England on the subject of debts and reparations. As far as lay in its power, every British Government has been in favour of wiping them out. Mr. Chamberlain, in a clear and emphatic statement in the House of Commons on February 2, renewed adherence to that policy on behalf of the present Administration. They had, he said, urged the necessity for the Governments to come together immediately to conclude a permanent settlement of the reparation question on the basis of a frank recognition of the facts

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established in the Young Plan Committee's report. That proposal having proved impracticable for the present, the Government had agreed to the postponement of the inter-governmental conference till May or June, when conditions might be more favourable. Mr. Chamberlain added :

The legal obligations of Germany are laid down by the Hague Agreements and cannot be altered or annulled by the unilateral action of Germany . . . But it is equally clear, from the report of the Basle Committee, that Germany is not in a position to resume the fulfilment of these obligations and that consequently when the creditor Governments come to consider future arrangements, that fact will assuredly have to be taken into account.

The Balfour Note policy, of all-round cancellation if possible, has rarely been more decisively expressed. As far as sacrifice is involved, it was made when the debt settlements were signed, by which this country renounced all claim to reimbursement, save of such sums as it was called upon to repay the United States. Some people are inclined to argue that we let off our debtors too soon, and should have done better to keep a hold on them. In the long run, however, it will probably prove that the adoption of a generous policy by the second creditor country as a contribution to general economic recovery was a wise and compelling example. But though Lord Balfour found the key, and the present Government is still offering it to the world, it has to be used by others before the door can be unlocked.

Germany may be taken next, the core of the international problem. As was pointed out in the last number,* parliamentarism has broken down in Germany, but nothing has yet taken its place. Dr. Brüning is still a parliamentarian in name, occasionally making the gestures of a dictator. Hitler is a dictator by profession conscientiously making the gestures of a parliamentarian. The truth is that Germany has not yet been educated to democracy. Hitherto the crisis has not provoked a national reaction along con-

* THE ROUND TABLE, No. 85, December 1931, pp. 78-84

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stitutional lines. The natural inclination has been rather to form organised and armed forces of a distinctly unparliamentary character. Hence the tranquillity of the country is constantly perturbed by the parades and counter-parades of these pseudo-military bodies, of which there are now no less than four—the *Stahlhelm* and the Nazi Storm-troops on the right, the Communist Red-fighters on the left, and in the centre the *Reichsbanner* formed to defend the republican régime. These warring factions have produced a great deal of commotion at home and abroad. They have stirred the apprehension of revolution and civil war within, for which there was some justification, and the fear of German aggression without, for which there was very little. As long as there was an unstable Government at the helm, dependent on the will of a Reichstag which no longer commanded the confidence of the people, the political importance of these organisations was considerable; but as soon as Dr. Brüning, backed by the President, showed that he was resolved to govern, the star of Hitler and the other partisan leaders began to wane. It was realised that their armed forces were so evenly balanced that they cancelled each other out. A Government determined to preserve order could crush any of them by using the police and the Reichswehr, aided by its opponents. The fear of a Communist or Nazi *coup d'état* has thus faded into the background during the last few months. The country at once responded to leadership and backed the Government in a great effort to make the emergency decrees effective. The German nation put forth a tremendous endeavour to improve its economic position by a drastic experiment in general deflation on the Australian model. Its consciousness of that endeavour under resolute guidance has already done something to dispel the mood of despair. The fact of that endeavour has also done something to revive in foreign countries the belief in Germany's willingness and ability to help herself.

'This improvement in the German position was beginning

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to produce some effect in France. The Government was obviously seeking a "formula" which would permit the skeleton of the Young Plan to be preserved, even if the body could not be embalmed. It realised, however, that no further payments could be expected in the immediate future, which meant, as most people privately admitted, that reparations were finished for ever. An influential paper of the moderate Left even flew a kite in favour of complete cancellation. But to the French mind the reparation question is not an isolated problem. If reconciliation with Germany could be purchased at the price of financial claims which are no longer enforceable, the bulk of the French people would probably waive them with a shrug of the shoulders. But the majority of Frenchmen do not believe in any such possibility. Just as the evacuation of the Rhineland was followed by the proposed Austro-German customs union, so they are convinced that the sponge would hardly be dry on the reparations slate before Germany advanced further demands for re-armament and the revision of the eastern frontier. The complete scrapping of the Young Plan would be interpreted as a sign of weakness, which would further loosen the structure of security erected by the peace treaties. These fears seemed to be confirmed by Dr. Brüning's statement to the British Ambassador, which was generally and apparently wrongly understood as a deliberate repudiation of the obligations freely accepted by Germany when she signed the Young Plan at The Hague. The reaction in France was such that the Government immediately stiffened its attitude both on reparations and disarmament. The German Chancellor, on the other hand, could not have openly declared his willingness to resume payments at any future date. To have done so would have tied his hands before entering upon the Lausanne Conference and would have raised a storm in Germany against further payment of "tribute."

A complete deadlock was thus created. The British Government, which had been using every effort to push

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on the Conference, reluctantly acquiesced in its postponement, seeing that it was already agreed that disagreement was inevitable. If no general election were pending in France or Prussia, the risk of holding the meeting might still have been run ; but neither the French nor the German Government dared modify its position within a few months of an appeal to the people. It may prove that in six months' time the tension will have relaxed, but in the meanwhile Europe can only flounder on deeper into the morass.

Moreover, there was yet another element which would in any case have darkened the prospects at Lausanne. Under the pressure of Congress Mr. Hoover had withdrawn the helping hand he had held out last summer. For him, too, a doubtful election was beginning to draw unpleasantly close. A revulsion of popular feeling had set in against the generous mood of the moratorium. Its mixed reception and the negative result of the Laval visit made the American taxpayer less willing to shoulder the burden of the European debts, until he saw some evidence of a real effort by Europe to set its own house in order. The spectacle of our continent's inglorious failure to restore a peaceful atmosphere necessary not only for its own but also for America's prosperity began to exasperate American opinion and to produce bitter disillusionment as to America's part in a war which had apparently settled nothing and unsettled everything. When the average Middle-Westerner looks at the endless wranglings over reparations, frontiers and tariffs growing yearly more acute as the new race in armaments gets under way, is he to be blamed altogether for harking back to the isolation of George Washington, or for thinking that peace is defined in Europe as "*la guerre sous une autre forme*" ? That is not a kind of peace which he understands. The United States was beginning to learn from its present troubles the need for co-operation, but after the rebuff suffered by its first move, the American public is unlikely to favour a second attempt, whether there be a Republican or a

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Democrat at the White House, until it sees some likelihood that co-operation will be fruitful and effective. For that the primary condition is the establishment of real peace in Europe, which cannot be accomplished without a real beginning of disarmament.

It is this attitude of mind which largely explains the surly temper of Congress and the refusal of the American Government to participate in the Lausanne negotiations. It does not follow, however, that, if an agreement were reached here, the United States would be unwilling to make its contribution to an all-round settlement. Any clear sign of returning harmony in Europe would probably evoke a response in America. The response will be all the readier if the Disarmament Conference gives proof of reaching concrete results. Unless it does, the settlement of the reparation problem will not by itself suffice to clear the air. As no settlement is yet in view, the Conference opens in circumstances which make success more than ever difficult and more than ever vital. As if the schisms of Europe were not enough for it to contend with, its prospects have been materially clouded by the League's failure to secure respect for the Covenant in China. Whatever reasons or excuses may be advanced, the fact remains that the Council was entirely unable to prevent the use of military force as an instrument of national policy. It is too early yet to apportion responsibilities, but the representatives of the great Powers, among which the British Government still holds a pre-eminent position, were not at first even willing to mark their disapproval of the breach of the peace pacts by endorsing the American protest. The consequences in the Far East are not yet predictable. Their far-reaching possibilities have already been brought nearer home by the threat to Shanghai, which has fortunately brought about co-operation between Great Britain and the United States. Their co-operation in this field is enormously important in itself, but equally important is its possible extension to other matters. In the mean-

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while, however, the initial failure to uphold the guarantees of peace provided by the League and the Kellogg Pact has already had unfortunate consequences in Europe. The fears of war which are one of the root causes of the depression would have been sensibly allayed by successful League intervention in the Manchurian affair. Its absence has had a correspondingly disturbing effect. To the initiated it is easy enough to draw distinctions between Oriental and European quarrels, but the ordinary man simply argues that if the League cannot preserve the peace in the East it cannot be trusted to do so in the West. To many countries the League is the foundation of their security. If it is a broken reed, the only alternative is to resort to the old methods of alliances and armaments, which must ultimately create such another system of mutual hates and fears as inevitably culminated in the Great War, how inevitably Mr. Churchill has convincingly shown in his first and last volumes.

It is not a reassuring situation, nor can the British Government be absolved of its share of responsibility in bringing it about. It gave no lead in the Manchurian affair, which might have been checked and confined to manageable limits by a show of firmness at the outset. The inaction of the Council of the League was interpreted in Japan as condonation, if not approval, by the great Powers, including the United States, of military action, and has thus encouraged its extension on a scale which threatens the balance of power in the Far East. It is reassuring that at the moment of writing the British Government has finally accepted the United States' demand for co-operation in dealing with the critical situation which has now arisen in consequence. Any other course would have jeopardised Anglo-American friendship, which is bound to be the corner-stone of British policy and the best guarantee of peace. It may be hoped that it is not too late to prevent a conflict of incalculable dimensions and to restore the respect for international engagements.

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It may also be hoped that the British delegation at Geneva will maintain a positive attitude towards disarmament. If we believe that disarmament is essential to peace in Europe and that peace is essential to economic recovery and stability, we are bound to give proof of the courage of our convictions. We have made a substantial contribution by accepting the limitation of naval armaments, but that does not exhaust the possibilities of reducing expenditure for warlike purposes, which weighs heavily on our own and on every other budget. The world's troubles will not cure themselves. Energetic and agreed action by the principal Governments is necessary, and it cannot be initiated without a decisive lead.

All these problems, however, really form part of a single complex, and cannot be profitably handled individually. The British Empire occupies a position in the world's affairs which places a large share of the responsibility for leadership on the shoulders of this country. It is perhaps better situated than any other to form a comprehensive and sympathetic understanding of the warring points of view, which have to be reconciled if any radical solution of the present political and economic chaos is to be found. It can only be discovered by infinite patience and unwearying reasonableness which avoids antagonism towards any of the principal actors in the unhappy drama. It would be a mistake, at this stage at any rate, to make common cause with any of them in opposition to the others. However misguided the French or German or American attitude on debts and reparations may seem to some of us, each is the outcome of strong, even passionate convictions, which cannot be ignored and which must probably receive some measure of satisfaction if a solid settlement is to be reached. As the United States would not ratify the pact of guarantee, or Great Britain the Geneva protocol, France is still unwilling to admit any relaxation of the peace treaties which might be made a precedent for demanding further political concessions. It may not be impossible to obtain a

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final settlement of the reparation problem at the price of a guarantee of a ten years' political truce, during which no question should be raised as to the territorial provisions of the treaties. Germany has hitherto refused to give any such undertaking, but as complete economic collapse looms nearer, she might be willing to revise her attitude, if at the same time some substantial beginning were made in general disarmament. As Great Britain stands to lose on her German investments considerably more than France by the default of Germany, her interest lies in making some sacrifice in order to promote such a solution, not forgetting that it would demand of France very considerable sacrifices, in appearance at any rate. The real value of the Disarmament Conference lies in the continuing opportunity which it offers for the simultaneous discussion of all the inter-related problems which constitute the existing impasse. It is useless to treat them separately. Reparations by themselves present a completely insoluble conundrum. The same is true of disarmament, tariffs and the monetary question. If regarded, however, as parts of a single problem, it is not inconceivable that a way out of the European tangle may be found. Once Europe could show that it had settled its differences, the way would be open for the discussion of war debts with the United States under circumstances affording some prospect of success. It is certainly much too soon to despair of a solution being worked out along such lines, and every effort of which the British Government is capable should be tried in order to bring about a European arrangement as the first step in a general liquidation of the international troubles which are beating the world down. The other line of advance which has been suggested is that we should seek an agreement with the United States, perhaps in conjunction with Italy, as a preliminary to an arrangement with Germany independently of France. The objections and dangers of such a course are obvious enough to indicate that it could only be adopted as a last resort. The present position, though

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grave enough, certainly does not warrant such an expedient being considered. There is still time and opportunity for Great Britain to play her historic rôle of intermediary in Europe, and to seek its salvation and her own by means of an understanding, to which France, Germany and Italy would be consenting parties. In the long run, as recent history has shown very clearly on several occasions, no artificial or imposed solution can hope to stand. It is only by free understandings freely arrived at that the peace and prosperity of the world can be secured. To bring them about account must be taken of realities, not only economic and financial, but also psychological. If the international crisis were due to material facts alone, it would be already abating. Its gravity consists in its largely originating in fears and passions which gradually acquire accumulating force. The peoples are, however, growing more conscious of their miserable situation and are eagerly looking for a sign. There are indications which show that the conditions for launching an economic recovery exist, but a decisive turn in the political situation is needed to give it the impetus required to set it on its way. The next few months will probably decide whether the clouds begin to lift or whether we plunge into the perils of another tempest of unprecedented violence.

IMPERIAL PREFERENCE

I. A GREAT OPPORTUNITY

THE forthcoming Ottawa Conference, which originated merely as an attempt to cloak the failure of the 1930 Imperial Conference in the field of trade co-operation, must now be recognised as a great opportunity—an opportunity to prove that, in spite of political devolution and local nationalism, the British Commonwealth of Nations is capable of acting as one, in pursuit of an end which is valuable not merely to a few of its members at some particular time but permanently to the whole Commonwealth, and indeed to the world. That change from an excuse to an opportunity is the last phase of an evolution in men's minds, both at home and in the Empire overseas. The war destroyed the insularity of British public opinion. The desire, so strongly displayed now in the United States, for isolation from Europe was shown to be vain, while with the growth of internationalism went the decay of Little Englandism. Popular faith was pinned to great international experiments—the League of Nations, the International Labour Office, the World Economic Conference. Now a reaction has set in. No one in a position of responsibility denies that the League of Nations must remain the corner-stone of our foreign policy, but, successful as it has been in so many important spheres, it has not yet brought peace to men's hearts; the constant efforts to break down barriers to trade, while they prevented any great rise in tariffs in the Old World,

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left Great Britain still stripped for the race but still naked and ashamed in a concourse of gladiators ; labour conditions have not been equalised, and there is no bogey more terrifying to the imagination of the working man than lower standards of life abroad. All these things had sown the seeds of doubt even before the present crisis. Now the British voter sees the actual or imminent collapse in Europe of the economic and political system which he and his countrymen have expensively supported with money and with guarantees, and a feeling of national self-reliance, shortsighted as it may be in some of its manifestations, was his natural reaction. But his disappointment does not yet embrace the Empire, and the Ottawa Conference is the chance to prove that it need never do so. To him the inhabitants of the Dominions are not and never will be foreigners ; they are not concerned in the European tangle of debts and reparations and frontiers and security, of which he is heartily sick. So British opinion is turning towards the Empire for those things which it asked of internationalism, but has so far asked in vain.

The general election of October enabled these forces to be mobilised, not so much because it returned a Government free from inhibitions about tariffs, as because it awoke in the British people feelings which had long lain dormant beneath a blanket of domestic differences. The sentiment that has come to the surface is compounded of a desire to use any instrument, provided it be used boldly, to revive trade and bring better times, a growing doubt of the effectiveness of our cosmopolitan trade policy, and a hope that the Empire might give us what our European ties had failed to secure. For one thing, sterling had declined in value relative to the franc, the mark and the dollar, but the currencies of the Empire had mostly moved with sterling, and the electorate thought—vaguely as it must in these matters—that the community of interest so displayed might make it worth while for the members of the Commonwealth to get together, and to act in concert as a real

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world economic power. The sentiment was, perhaps, primarily nationalist, but events have taught us our impotence to withstand alone the sweep of world economic forces, and the impossibility of cutting ourselves off either in trade or in politics from the outside world, so that while the horizon of our hopes was narrowed it still included at least the members of the British Commonwealth. With them we start with sentiment on our side; we have no barriers of political antipathy to break down. Their standard of life is as high as or higher than ours. Within the Commonwealth, at least one forcible motive for restrictions upon international trade is absent from the start, since we do not need to think in terms of self-sufficiency and defence. These are logical reasons for attacking the problem of trade barriers within the British Commonwealth first, and for postponing our efforts in relation to other countries for a later occasion, but the strongest reason of all is the impulse given to imperial co-operation by the ebullition of public sentiment.

And in the distant Dominions something of the same spirit seems to have emerged. The success of "national parties" in Australia and New Zealand, the agitation for the abandonment of the gold standard in South Africa, are waves of the same flood as swept Great Britain. In Australia the ejection of the Labour party from office meant a change on the tariff issue, the reverse of that which occurred in the mother country, but high protectionism in the Dominions has been no less an obstacle to the development of a concerted Imperial economic policy than free trade at home. Mr. Bennett's imposition of dumping duties on British goods after the divorce of sterling from gold seemed to betoken a reverse tendency, but (as to some extent in South Africa also under similar circumstances) the measure was criticised by many supporters as well as by opponents of the Administration, and it was subsequently modified in Great Britain's favour. Personal observation shows that—perhaps because of the exposure by the Beau-

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harnois scandals of the part played by big business in forming the policies of the great parties—there is in Canada a very general desire that the tariff should aim rather higher and achieve rather more than the artificial and expensive support of industry in the East. In Ireland the abandonment of the gold standard was indeed the signal for a fresh demand by the Republicans for the creation of an independent Irish currency, but at the same time it exposed, as Mr. Cosgrave's Government was quick to retort, the commercial inter-dependence of Great Britain and the Free State, and an official Irish delegation has already visited London to discuss the terms and purposes of an imperial trade agreement.

It is more than a fortuitous combination of circumstances—in which economic adversity plays an important part—that has caused the outlying members of the Commonwealth to welcome with peculiar warmth a search for an imperial economic policy. For close on a hundred years the history of the British Commonwealth has been dominated by political devolution from the centre and the growth of independence in the parts, of which economic nationalism was at once the result and the symbol. India, Burma, Ceylon, the African territories, the West Indian islands and other “crown colonies” have still some marches to tread along that road, but the Dominions, through the world war and their recognition at Paris as independent Powers, through the post-war Imperial Conferences, the Balfour Memorandum of 1926 and the Statute of Westminster, have been brought close to the end of the journey. Political nationalism having thus achieved its end, the economic nationalism that accompanied it will certainly change its direction into new and broader channels. It has, of course, been tempered by a generous measure of preference granted by the Dominions to Great Britain—which the mother country has looked upon as some return for the great imperial burdens she has borne, in the fields of defence, finance and of trade, too, as the metropolis of the Commonwealth, apart from the preferences that she has

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so far granted ; but generally speaking the preference has been a by-product of a policy designed in relation to local and not to imperial needs. Some nationalists in the Dominions, especially in Canada, have opposed the growth of industrial protection ; relieved of their fears of political domination by Great Britain, they are turning to the

aspire as a means of securing the greater freedom of world trade that they desire. Some nationalists, on the other hand, have been equally ardent advocates of protection ; but when legislative autonomy is secure there is no longer any need to demonstrate it by displays of fiscal independence, and nationalists of the latter kind, too, are far more willing to consider the possibilities of the Empire as an economic unit now that it is obviously not a political unit. From a more rational economic view of the Empire we may yet proceed to a healthier political view, which will reconcile the independence of the parts with the development of a common policy for the whole, seeking the advantage of all through the promotion of world peace.

But a great opportunity always implies a great danger, the danger of failing to grasp the opportunity. If this fresh and powerful sentiment is spilled upon the ground or is allowed to engender merely a set of unnatural bargains for the benefit of special interests, it may never appear again. If the British Commonwealth, with all the force of imperial loyalty and of common blood and tradition to strengthen its purpose, cannot by concerted effort stem the tide of economic nationalism and set an example to the world, what can be expected of conclaves and alliances which have no such bonds ? The failure would be a failure in the eyes of the world, and the consequent sneers at the boasted unity of purpose in the Commonwealth would be accompanied by general disillusionment and cynicism. How can France and Germany be expected to agree on the complex matters of disarmament, frontiers or reparations if on the simple issue of economic policy Great Britain and her Dominions cannot reach an accord ?

More and Better Trade

II. MORE AND BETTER TRADE

IT is therefore all the more important to be sure what we hope the Conference may achieve and what irresistible limitations there are to its possible achievements. We have thought too long of a system of imperial preference as implying fresh restrictions upon trade, and thus fresh dangers to our economic welfare. The Ottawa Conference will fail if it does not approach the problem from precisely the opposite standpoint. The purpose of an imperial economic system is to cause trade to flow not less but more freely. We want to exchange more of our products for more of the products of our fellow members of the Commonwealth. No member has, in the long run, any interest in cramping the trade of the world, and negatively we do not wish an imperial preferential system to diminish world trade just as, positively, we wish it to enlarge empire trade. An imperial economic policy, therefore, which was only a super-nationalism in the field of trade and tariffs, imposed upon the unrestricted nationalism of the parts, would be a disaster to the Empire and to the world ; it would strangle the trade by which everyone of us must live, and, what is more, would contain the germs of its own defeat. An Empire still divided by high tariff walls, and ringed about by an almost unscaleable barrier against the rest of the world, would be an Empire doomed to decay if not to disruption ; yet it is the inevitable conclusion of economic policies urged upon us by some who most emphatically profess and call themselves imperialists.

We shall therefore not make much progress at Ottawa if we have not at the back of our minds the conception of trade as a mutually advantageous interchange of goods and services. Within the limits set by considerations of defence, social policy or monetary difficulties, the more trade the better for everybody. Tariffs, in this light, far

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from being in themselves a national asset, are an unfortunate necessity imposed by the action of others or by fundamental national policy. If a tariff is valuable in itself, a reduction of the tariff on British imports is as harmful as a reduction of the tariff on imports from foreign countries, and the "sacrifice" must only be made for an equivalent return, which itself takes the name and appearance of a sacrifice by the other party to the reluctant bargain. Let there be no more talk of "mutual sacrifices" or "concessions" to be made at Ottawa. The basis of the new imperial economic system must be mutual advantage or it will be an unsubstantial, jerry-built makeshift doomed to early collapse. Buying and selling are reciprocal functions and the wealth that goes into a country by purchase should be regarded with no greater suspicion than the wealth that goes out by sale. If the world has not yet learnt that lesson then we had better shrug our shoulders and wait until the complete breakdown of international exchange drives us to a system of barter which would teach us the lesson painfully in words of one syllable.

It does not follow that all purchases and all sales are equally advantageous. We recognise that proposition in our national laws, which regulate the sale of liquor, medicaments and other commodities. Internationally we tend, for what many believe to be equally sound reasons, to regulate purchases rather than sales, though we have also made some attempt to control the export of armaments and dangerous drugs. In the present issue perhaps the most important consideration determining the control of international trade is the balance between industry and agriculture. The Dominions long ago decided that at whatever sacrifice they would not consent to remain merely producers of foodstuffs and raw materials, and by now their industries have become a national necessity as well as an object of national pride. In Great Britain the gradual submergence of agriculture beneath a growing volume of industry and services has called forth a corresponding protest which has

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considerably influenced public policy in tariff matters. These ambitions, like the special relations between members of the British Commonwealth and outside countries (e.g., Great Britain and the Argentine or Scandinavia, Canada and the United States) must form part of the data of the forthcoming negotiations. It is no use our entering the Conference unless on these fundamental points we know our own minds and have carefully explored the ground.

III. THE POLICY OF GREAT BRITAIN

THE general attitude of Great Britain is perfectly clear. We are a great trading nation, absolutely dependent for livelihood on the maintenance of world trade. Roughly 60 per cent. of our exports go to foreign countries. Nearly one half of our vast overseas investments have been made outside the British Empire. It may be that if we had placed more of our capital in the Empire, and particularly if we had invested more in commercial enterprise there and less in foreign government loans, our export trade would have been less precarious and less dependent on the policies and prejudices of foreign countries. Certainly we would be glad if the percentages were more favourable to the imperial link, and perhaps the Ottawa Conference may help to bring about such a change, but in the meantime our existing position cannot be left out of account. Nearly £200 millions of our normal annual receipts, as a country, come from invisible items, other than long-term interest, directly or indirectly dependent on the commercial prosperity of the world at large, an amount which we cannot afford to see further diminished. Our position as manufacturers and bankers for the world, on which our livelihood depends, has been based on cheap food, cheap raw materials and the stimulus of free competition. Hitherto, therefore, while it has been a principle of our policy that any import duty

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should, if possible, carry an imperial preference with it, we have been prevented from extending any large measure of preference to the rest of the Commonwealth by the simple fact that economic necessities have demanded the retention of general free trade. Some believe, indeed, that those necessities remain equally forcible now, especially since the depreciation of the pound has already given us some of the advantages that were expected from protection, and that we should still be unwise to change our policy even in the hope of expanding trade within the Commonwealth. That question, however, is not, and need not be, argued in this article because it is already apparent that, for good or ill, Great Britain will very shortly have a general and systematic tariff for the dual purpose of revenue and protection. In hazarding the established benefits of our former policy, we are motivated partly by the need to defend ourselves against the effect of tariffs elsewhere on our own balance of trade, partly by the desire to arrange a common economic policy with the rest of the British Commonwealth. If we, for that purpose, are prepared to forsake free trade it is more than reasonable to expect the Dominions at the same time to modify their policy of high protection. Of imperial preference Great Britain must demand that it should expand rather than diminish the aggregate of international trade, that it should enlarge her exports and not merely injure her competitors in one market so as to intensify their aggression in others. That is not an impossible demand. It is false economics to contrast our imperial and our foreign trade and to assume that a rise in the one must necessarily be accompanied by a fall in the other. One of the foremost reasons for the decline of our overseas trade since the war has been comparative lack of adaptability. World changes in demand and in productive capacity have accounted for most of the decline in our staple export trades; in some of the newer industries—motor cars, aeroplanes, artificial silk, and many others—our progress has been encouraging, but it has not

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been fast enough to make up for the decline in the heavy industries, cotton and wool. If we could place greater reliance on the home and imperial markets we might well be strengthened rather than hindered in foreign markets for these new products.

But if our aggregate of trade is to be enlarged our imperial policy must be flexible enough to allow us to take advantage of any special opportunities that may arise outside the Empire. It would be foolish to shut out the rest of the world for ever from advantages which the members of the Commonwealth accord to each other, and to make those advantages wholly dependent on such exclusion. Since the British market is as important to the foreigner as the foreign market is to Great Britain, we should fear tariff retaliation not so much for its direct injury as for the harm it would do to world trade as a whole, but the repercussions upon our own position would be serious enough. Moreover, our imperial ties would be no more than fetters if, while suffering all the disadvantages of protection, we were to be prevented from reaping its benefits in securing special concessions from foreign countries on the strength of the bargaining power that it would afford. That is especially true at the present moment, when the negative success of traditional commercial policy in securing "tariff disarmament" has driven many countries to seek a way out through customs unions and preferential systems. The Scandinavian countries, for instance, followed Great Britain in abandoning the gold standard, and are now putting their heads together for the development of a common trading policy in which, sooner or later, they are bound to invite Great Britain's co-operation; together, they rank with our best single customers, and for their part they are so dependent on the British market that they are bound to offer advantageous terms which, desirable as it may be to divert some of our demand for their products towards Canada, Ireland and New Zealand—not to mention our own home producers—we should at least be in a position to consider.

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The attachment—in their own interest—of so many countries to sterling in spite of its inconvertibility into gold has been remarkable, and might be employed, as we suggested last December,* to organise a new international exchange system which would avoid some of the perils of the post-war gold standard; if nothing is done in the meantime, Ottawa will present an opportunity for taking a first step in that direction. But to leave all foreign countries out of a sterling union would be a grave error, yet it would almost inevitably follow if the new system of imperial preferences were to be aggressively directed against the rest of the world and were to forbid preferential arrangements outside the boundaries of the Empire. Sir Herbert Samuel, speaking in the House of Commons on February 4, asserted that this would be true of the actual tariff proposals that he was denouncing; that criticism, if well-founded, would be of great moment, and it is to be hoped that the Government will bear in mind the importance of not unduly tying their hands at Ottawa for negotiation with foreign countries. The point is not by any means of purely British interest. South Africa has already, for what seemed to her good and sufficient reasons, concluded a commercial treaty with Germany by which that country receives all the subsequent preferential advantages extended to Great Britain, and there is no saying when opportunities may not arise for making other special arrangements, say between Canada and the United States, or Australia and Japan.

IV. THE SCOPE OF PREFERENCE

Each of the Dominions, before putting up proposals at Ottawa, will have to consider its own fundamental national policy, its relations with third parties, its internal political situation. The scope of preference, or other methods of expanding trade (of which tariff preference is plainly only one) is thus somewhat limited, and cannot,

* See *The Round Table*, No. 85, December 1931, p. 55.

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indeed, be clearly delimited until policies are determined and technical details more fully explored. But a rough indication of the magnitudes involved is given by the following tables, showing the imports of manufactures into the Dominions and of foodstuffs and raw materials into Great Britain.

I. IMPORTS OF FOOD AND RAW MATERIALS INTO THE UNITED KINGDOM *Annual Averages 1924-29, in £ million*

	From British countries	From foreign countries	Total
1. Total imports of merchandise ..	380	866	1,246
2. Grain and flour, etc. ..	45	63	108
3. Meat	26	85	111
4. Butter, cheese and eggs	37	48	85
5. Fruit	9	29	38
6. Sugar, tea and tobacco	44	42	86
7. Raw textiles	73	101	174
8. Wood and manufactures thereof	6	58	64

II. IMPORTS OF MANUFACTURES INTO THE DOMINIONS AND INDIA *Annual Averages 1924-29, in £ million*

	From United Kingdom	From other countries	From British countries	From foreign countries	Total
1. Total imports of merchandise—					
(a) Canada	36	11	169	126	
(b) Australia	64	19	66	149	
(c) New Zealand	23	11	14	48	
(d) South Africa	34	10	26	70	
(e) Irish Free State	49	2	11	62	
(f) Newfoundland	1	3	2	6	
(g) British India	92	14	82	188	
2. Iron and steel semi-manufactures	19	0	14	33	
3. Agricultural, electrical and other machinery	31	1	35	67	
4. Motor cars, etc., and parts	8	5	33	46	
5. Other metals and manufactures of metal	25	2	29	56	
6. Cotton piece goods	51	0	13	64	
7. Other manufactured textiles and apparel	56	9	39	104	

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Of course it would be absurd to expect that any agreement should cover even the majority of the items contained in the tables, and indeed it would be dangerous if it did, but the size of the figures shows at least that, other considerations apart, the field is large enough to make an attempt at an imperial preferential system worth while. It has been stated with authority that the Dominions imported from foreign countries in 1929 as much as £280 millions' worth of goods of a type which could be satisfactorily produced in Great Britain, and while the figure may be a little exaggerated by the inclusion of classes of manufactures in which foreign countries have for one reason or another an overwhelming superiority, it can scarcely be put at less than £200 million on a conservative reckoning. At the 1930 Imperial Conference Mr. Scullin stated that Australia was importing between £40 and £45 millions' worth of goods from foreign countries of a type in which Great Britain could compete.

The question of the division of manufacture between the Dominions and Great Britain is perhaps more complicated than any other which will be raised at Ottawa. Here in particular careful preliminary investigation will be necessary, since discussion in general terms is bound to be fruitless. The question to be settled is, how can wasteful competition be supplanted by advantageous specialisation? There are many lines of manufactures which the Dominions attempt—or may attempt—to make for themselves but which, for want of a large enough market or of associated industries, they can only produce very expensively, whereas in other lines, which they are perfectly competent to manufacture, they are hampered by the cut-throat competition of British and foreign producers. If the Conference can replace this wasteful division of effort by specialisation, standardisation and concentration of production, it will do much to enhance the industrial efficiency of every member of the Commonwealth. Even were the only result to be a precaution against unnecessary overlapping in future development,

Methods of Negotiation

that would be a step forward from the chaos of the present. Representatives of the steel industry are known to have been considering the problem of intra-imperial trade in these terms for some time past, and last year, at the invitation of the Canadian Government, a mission of British industrialists visited Canada especially with the view of discussing possibilities of complementary production. The Federation of British Industries and other interested bodies in Great Britain are adopting the same line of approach, as well as attempting a direct estimate of the possible markets for British goods in the Dominions. These valuable semi-private investigations must, of course, be linked up with official preparations. In Great Britain a special committee of the Cabinet is being advised by inter-departmental committees of officials who are reviewing very closely the possible scope of preferences and other means of enlarging trade with the Dominions. Each of the latter, of course, has its own method of preparation. Even six months before the proposed date of the Conference—not by any means too long a time—it is plain that in matters of production and trade the ground is being much more carefully explored than it has been before any previous Imperial Conference.

V. METHODS OF NEGOTIATION

THIS exploration will indicate the possible field of preference or other devices. But there is another vital point to be settled, namely, by what method should the attempt to enlarge trade within the Commonwealth be made by the British Government, with whom the initiative is bound to lie. A suggestion has been put forward,* with considerable cogency, that instead of going to the Conference prepared to grant some isolated

* Letters to *The Times* from Mr. Richard Jebb, December 23, 1931, and January 5, 1932.

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favour, such as a wheat quota, in return for whatever particular and unrelated offer the Dominions might make affecting our exports of manufactures, "we should establish in our next budget a tariff designed throughout to meet our own domestic needs, but with at least two scales of duty : (1) the general tariff, i.e., applying to all countries not subject to exceptional treatment ; and (2) the preferential tariff, applying alike to all parts of the Empire. In fixing the rates of duty on each class of goods, care is taken to safeguard the primary object. If it is protection, the preferential rates must be kept high enough ; if revenue, the general rates must not be too restrictive. So we should immediately reach the goal, of effective Britannic reciprocity, by a certified path which avoids any preliminary bargaining, with its inseparable risk of friction and failure." That plan has undoubtedly a great deal to recommend it. Its chief merit is that it would safeguard Great Britain against "buying a pig in a poke," against obtaining preferential advantages of hypothetical value from the Dominions in exchange for an alteration of her own trading arrangements of whose defects or merits she could have had no experience. It would safeguard her, too, against building up a patchwork preferential system in the Empire without a principle and without any conception of an ultimate goal.

If, however, the plan means abandoning altogether the idea of negotiating with the Dominions on the basis of alterations in our tariff and in theirs, it is presumably impracticable. The indefinite postponement of the Conference to which we are pledged, and to which the British electorate and Parliament keenly look forward, would let slip the opportunity of using the enthusiasm of purpose that we have described, until a vague future date at which it might no longer exist. In so far as the plan implies only the construction, before we negotiate, of a general tariff system in which the Dominions and colonies receive substantial preference, it is already being put into force.

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Many of the very real dangers which the proposal is designed to obviate will disappear if the principles outlined in this article are upheld at Ottawa; that is to say, if no country enters the Conference without a clear idea of what fundamental tasks it intends its tariff system to perform, and if arrangements are reached only on the score of mutual advantage, not mutual sacrifice, in accordance with a conception of the Empire as a collection of autonomous units trading more and more fruitfully and on a greater and greater scale with each other, while at the same time not attempting in any way to isolate themselves from the rest of the world.

But there are two further choices that must be made regarding the method of approach to "effective Britannic reciprocity," choices different from Mr. Jebb's antithesis though implicit in it. Granted that a conference is held with the purpose of securing some understanding between the Dominions and Great Britain upon reciprocal trade advantages, whether by tariff, quota or other means, is the outcome to be a set of commercial treaties binding the parties in precise terms, or the continuance of the traditional policy of free and automatic preference under the guidance of a "gentleman's agreement"? There is much to be said for the latter alternative, provided the understanding were broad and flexible enough to allow any party to modify its tariff, if necessary, without raising an accusation of breach of faith. It would preserve beyond dispute the tariff autonomy of the members of the British Commonwealth and the adaptability of their fiscal arrangements to meet either an economic emergency—a crop failure, a collapse of prices, the breakdown of an exchange system—or a change in their fundamental economic policy. It would avert the danger, which many believe to be acute, that the use of imperial sentiment to manufacture commercial pacts will destroy the sentiment and leave only the pacts.

The case for the opposite course cannot be logically
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presented until the second choice has been made. Is Great Britain to be bound to offer the same terms to each and all of the Dominions, or may she discriminate between them? The disadvantages of the former alternative are not always fully realised. Not only would a commercial treaty to which six Dominions (not counting India or other parts of the Empire) must simultaneously be parties be extremely difficult to negotiate; it would be almost impossible to maintain, since a change in government in some one or other of the Dominions occurs very frequently, and since each of them jealously cherishes its constitutional right to alter its taxation—indirect as well as direct—as and when it pleases. In no one of the Dominions, let alone Great Britain, is the tariff “out of politics,” in the sense in which it is so in France or other European countries. Thus the septempartite agreement would swiftly wear thin with friction against Dominion tariff autonomy and against jealous suspicions, among certain of the parties to the bargain, that they had not got quite as advantageous an exchange out of it as their fellows. That last objection holds, in some measure, against automatic preference also, but if a bargain in black-and-white must grant the same terms to every member of the Commonwealth it would certainly be preferable to have no written bargain at all.

Would we not, then, be well advised at this stage to abandon the principle of equal preference for all parts of the Empire, for the sake of progressing more rapidly towards the enrichment and enlargement of intra-empire trade and of dealing faithfully with those Dominions which are willing to offer us the greatest advantages? If progress is to be held up indefinitely by the reluctance of a single Dominion to modify its protectionism, the hope of expanding commerce by imperial preferences had better be abandoned from the start. Any Dominion which stood aside at first would be able to come in as soon as it became aware of the advantages it was missing. At all costs the

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Ottawa Conference must bring about a net lowering of tariff barriers, so that each of the participating countries may receive a balance of advantage through the profitable expansion of trade. We believe that the best way of achieving that purpose is for Great Britain to be prepared, if necessary, to enter into separate gentleman's agreements with groups or individual Dominions, as a preliminary to a general accord which might mature only after years of experience, and in any case fitted mentally into a scheme of what intra-imperial trade really ought to be in relation to world trade as a whole.

Such a plan would avoid some of the pitfalls that lie in the path of imperial preference when it turns towards the other parts of the Empire. India, for instance, as her representatives have frequently pointed out, is not in a position either politically or economically to grant any substantial increase of imperial preference ; were she then to share fully in the advantages which the Dominions had secured in exchange for enlargements of their own preferences to British products they might legitimately complain. Should the colonies participate in those advantages or not ? Only those most ignorant of the structure of the Commonwealth could imagine that a simple Act of the Imperial Parliament can establish in the colonial empire a system of reciprocal preferences, or "Empire Free Trade," or for that matter any other alteration of fiscal policies. Ceylon, the West Indian Islands, the African territories and other colonies have in these affairs a large measure of self-government with which we would attempt to interfere only at grave peril to the amity that exists between them and ourselves. In West Africa by the Treaty of St. Germain-en-Laye, in the mandated territories by the terms on which we hold the mandates, we are bound not to establish preferences against foreigners. And over the whole of the non-self-governing Empire trade policy must be guided by the consideration that any attempt to build barriers against the rest of the world and make the

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colonies just such a private preserve as they were in the eighteenth century would arouse the dangerous resentment not merely of the colonies themselves but of the whole of the foreign world. To treat the whole Commonwealth as one in trade relations is, therefore, manifestly impracticable—a fact which has, indeed, been recognised already by the British Government in its tariff policy—and we would thus do well to retain the utmost freedom of action by allowing at least the possibility of differential preferences within the Commonwealth. Such a course would not be the novelty that it appears at first glance, for it is the established practice of the Dominions themselves.

VI. CONCLUSION

LET us now sum up what seem to be the fundamentals of any system of imperial trade regulation, including preference, which is to be of lasting value. It must take into account the fundamental economic policies of the participants, including the balance between their industry and agriculture, and their commercial relations with the rest of the world. Once those essentials have been determined, it should imply a progress towards a lowering of tariffs and the breakdown of economic nationalism generally ; it must expand rather than diminish the volume of world trade. While for the time being it may injure third parties it must not be directed against them, and must leave them an opportunity of participating in preferential advantages in exchange for equivalent undertakings. It must not be of such complication or duration as to tie the hands of any party unduly in its trading relations either within or outside the Commonwealth. Above all, it must be based on the principle of mutual advantage and free consent.

We believe that with the goodwill that has already manifested itself, and with careful preparation by experts

Conclusion

and co-operation between representatives of the interested affected, those ideals can be maintained. With these to guide us, at least a start can be made towards the development of the Commonwealth as a real economic entity with a policy and a purpose of its own. Outside the field of tariffs there is more than a little to be done. The research, investigation and scientific study carried out by the Empire Marketing Board and the Imperial Economic Committee might be organised on a broader scale. Marketing and advertising, especially of British manufactured goods in the Dominions, are questions that must be raised either at the Conference or by direct contact among the interested parties. The work begun by the British Engineering Standards Association and the British Standards Institution should be "boosted" into standardisation for the Empire, a measure which would do more for the expansion of British manufacture than many an imposing tariff reduction. Imperial co-operation is overdue in many spheres, including those of the film industry, telegraphs and broadcasting. Even if the decision goes against setting up a permanent central organisation, more frequent contact among the economic advisers of the several Governments will be essential if there is to be any real imperial economic policy, and in particular the prejudices and personalities of Whitehall must no longer be allowed to prevent the organisation of an imperial statistical bureau, or at least the assimilation of imperial statistics to a common standard. Above all, dangerous or futile as such a course may seem, the question of migration and settlement must be discussed in some form or other, because until it is settled the economic future of the Empire remains hazardous and its economic policy a makeshift. In all these matters Ottawa presents an unexampled opportunity. Let it not be lost or abused for want of foresight or preparation.

CHINA, JAPAN AND MANCHURIA

I. THE MANCHURIAN PROBLEM

MANCHURIA is a land of opportunity. It aroused in Russia dreams of a Pacific Dominion and offered her a warm-water port for the development of eastern Siberia. Its empty spaces and vast resources have since held out to Japan the apparent solution of pressing domestic problems. And China alone of the three Powers concerned seemed to be unaware of its crucial importance. From 1895 down to very recent years the political weakness, venality and shortsightedness of successive Chinese Governments gravely impaired the rights of China in Manchuria and gave Russia and Japan opportunities of aggression which they were not slow to use. The history of Manchuria since the Sino-Japanese War of 1895 is well known and will not be retold here; but, in estimating the real situation created by the events of the past forty years, we may epitomise the story by saying that Russia, France and Germany saved Manchuria for China by forcing Japan to relinquish the Liaotung Peninsula in 1895, that Japan in her turn did China an even greater service by driving Russia out of South Manchuria in 1905, but that in the years which have followed Japan has often given China and other interested Powers reason to suspect that the final aim of Japanese policy was the political as well as the economic control of Manchuria either by a veiled protectorate or by annexation outright. The action of Japan in annexing Korea in 1910 gave force to the suspicion.

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Only late in the day did the Chinese Government wake to the danger, and when it awoke it found that its fundamental rights and its essential interests in Manchuria were heavily mortgaged and its power to redeem them quite inadequate. Thus the legacy of the past makes the problem of to-day; and no treatment of it will be effective which does not take account of the character of the legacy. Whether the means taken to achieve certain ends by Japan and China in Manchuria be regarded as fair or foul, competent or incompetent, the heart of the problem lies in a conflict of indisputable rights. More than once the Chinese have signed away their rights under the duress of force or bribery, but that does not impair the legal validity of Japanese interests thus created, which are founded on treaties that any law court on earth would recognise as binding on both parties. Public opinion, however, knows that treaties are not eternal, that they begin to decay before the ink is dry upon them, and that the problems they raise must be regarded in terms other than mere law. Once we take the dispute out of the region of strict legal right and look at it in a broader way we see that it is really a conflict between indisputable legal claims on the Japanese side and fundamental national rights on the Chinese. It is not the first time that there has been a difference between law and moral justice; and we have learned in our history that resistance to the law is sometimes the way to get justice. But those who resist the law must know what they are doing—which has not been the case with much of the Chinese resistance to Japanese rights in Manchuria. The plain fact is that the Chinese feel that unless they oppose the extension of Japanese control in Manchuria by every means in their power, both legitimate and illegitimate, their future as the real owners of Manchuria will be seriously prejudiced, while the Japanese refuse to allow their great enterprise in developing the resources of the country to be injured by Chinese disorder.

The foundation of Japanese rights, in the treaties of

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1905 with Russia and China, and of 1915 with China alone, buttressed by agreements (public and secret) regarding military and railway questions, is well known. These documents have been made available to the public in a score of volumes, of which the latest is Mr. C. Walter Young's standard work.* Moreover, when it appeared that the Chinese Foreign Office was inclined to deny not only the validity but the existence of one of the more important secret agreements, the Japanese Government announced (January 14, 1932) that the agreements were privately communicated to the British and American Governments soon after their signature, i.e., in 1906, and had been originally withheld from publicity by request of the Chinese Government itself. This statement has not so far been denied by the Chinese Government and may, with reservation, be accepted as true for all practical purposes. Therefore the legal basis of the Japanese case cannot be seriously questioned, and until the treaties and agreements, one or all, are amended or denounced there can be no effective change in the situation. But, while the treaties are the legal instruments of Japanese rights in Manchuria, there is something more vital than a legal claim in the motive which inspires Japanese intransigence whenever any Manchurian issue is raised. The generation which was brought up to believe, and fought the Russian War in the belief, that Manchuria was the land of salvation, is still alive, and though the failure of Japanese colonisation has shaken one of the main pillars of that faith, there are still strong material reasons to support it. Sentiment, too, is a powerful factor. The chief glories of the Japanese army are enshrined in Port Arthur and the battles of the Manchurian War, and in many a temple throughout Japan there are images in bronze and iron, cast from Russian weapons, that remind the worshippers, young and old, in a way in which the Achilles statue in Hyde Park has ceased to remind England, of

* *Japan's Special Position in Manchuria*. (The Johns Hopkins Press, Baltimore, 1931.)

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victories hard-won over a once dangerous foe. And if the blood of Japan was poured out to protect the homelands from a foreign danger, the treasure of Japan has since been spent to foster the asset thus acquired.

In the years immediately following the Manchurian War, Japan believed that she could send the surplus of her rapidly growing population to find new homes in the rich open spaces of Manchuria. The policy of the Manchu dynasty had closed them to the Chinese within the Great Wall, and, with the Russians driven back north of the Fengtien border, a region capable of holding twenty million settlers lay open to the hungry Japanese peasant. The Japanese Government left nothing to chance, knowing perhaps that the small cultivator would require some inducement, backed by official pressure, to uproot him from his home in Japan. Those were the days before the great expansion of Japanese industry, and though the spectre of overcrowding was no more than a cloud the size of a man's hand on the horizon, it had begun to disturb far-seeing minds. Moreover, the Government realised that the legal rights of Japan in Manchuria would receive an immense reinforcement if, in the course of a generation, the land could be filled by their own people. So the Oriental Development Corporation, founded in 1908 to perform the task of Japanese colonisation in Korea, was authorised to extend its colonising enterprise to Manchuria in co-operation with the newly created South Manchurian Railway Company.

The task proved beyond their power, but before they confessed failure a new factor came in to offer consolation. In 1910 Japan annexed Korea, and the Korean peasant was thenceforth cast for the part originally assigned to his Japanese brother. By the act of annexation the Koreans passed under the Crown of Japan, became Japanese citizens and acquired extra-territorial rights in China. Thus transformed they could be employed as useful pawns in Manchuria. Their extra-territorial character gave them immunity from Chinese taxation and from administrative



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or judicial interference with their liberty, and conferred on them the right to settle in Manchuria, while their natural habits made them more effective competitors with the Chinese in agriculture and other occupations than the Japanese could ever hope to be. Given a sufficient lapse of time, their prolific powers would people the empty land and China would awake one day to find that her three eastern provinces over the Wall were gone for ever. It was a pretty plan, designed with no little sense of reality, and it so far succeeded that there are now over 600,000 Koreans in the country. They have not done all that was expected of them and might have done more. They cannot be described as the zealous and devoted agents of the new plan, for though they do not love the Chinese, they have stronger reasons for hating Japan, and they could not be trusted to pick the chestnuts out of the Manchurian fire merely for the *braux yeux* of Tokyo. Hence a slower *tempo* in the whole proceeding, which delayed the fruition of Japanese ambitions and, by so much the more, saved the interest of China. Had the colonisation of Manchuria by Koreans and Japanese from 1910 to 1920 proceeded at anything like the pace at which the Chinese migration subsequently moved between 1925 and 1930, the situation would be different to-day; but whereas in these five years at least three million Chinese went to Manchuria, in the previous twenty less than three quarters of a million Koreans and a quarter of a million Japanese had effectively settled there.*

The failure of this colonisation plan led Japan to lay a somewhat different emphasis on the value of Manchuria. Japan's place in Manchuria first and foremost is politically essential to her because it keeps Russia out. Its second value is the investment she has made there, which is to-day reckoned at £214,000,000; but not all of this

* In 1930, according to the *Manchuria Year Book* for 1931 (published by the East Asiatic Economic Investigation Bureau, Tokyo), the population of Manchuria consisted of 28,259,873 Chinese, 607,119 Koreans, 228,810 Japanese, 102,198 other races.

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is really Japanese money, for £16,000,000 of it in sterling alone originally came from the pockets of British investors who took up the bonds of the South Manchurian Railway; and a further large sum, both in sterling and in United States dollars, is now invested in Japanese government bonds and other paper which in fact represent interests in Manchuria. The total foreign investment in Japanese undertakings in Manchuria is difficult to estimate, but it must be an appreciable proportion of the whole. The third value of Manchuria to Japan is (*a*) as a source of vital raw materials and (*b*) as a market, on which a brief description of the economic situation of Japan will throw some light.

The essential domestic problem for Japan is to find sustenance and elbow room—perhaps one ought to say sustenance or elbow room—for her increasing numbers. The natural increase in her population is 700,000 per annum, for whom she must either open new fields of emigration or secure new markets. In either case her domestic problem dictates her foreign policy, and, as emigration has practically failed, her foreign markets and her sources of supply have become ever more vital to her. In 1913 she imported about 4 per cent. of her consumption of rice, in 1928 the figure had risen to over 16 per cent.; she imports practically all the raw cotton she requires; and of the iron ore consumed in Japan proper, 91 per cent. came from outside sources in the five years ending December 31, 1930. To pay for her yearly increasing imports of metals, coal and food, she must export produce of her own making, chiefly raw silk and cotton manufactures: so that the Japanese position to-day is that raw silk is raised and exported (mainly to America) to pay for imports of raw cotton, which is made up into yarn and cloth and then sold abroad to pay for the rice, beans, coal, and heavy metals which Japan is obliged to buy in foreign markets. Her invisible exports (*e.g.* shipping services, etc.) play some part in balancing the account, but the returns they give are not likely to increase so largely as to fill the gap. The foundation upon which

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her foreign trade stands is too narrow to be safe. Two staples, silk and cotton goods, amount to over 60 per cent. of the total exports ; and two countries, the United States and China, are the markets for more than two thirds of the exports.

China, sharing with the United States the bulk of Japanese exports, is therefore one of Japan's most important markets. But, as the Yangtze Valley and South China take the major share, North China can claim only the lesser part ; and when from Japan's trade in North China we deduct that which proceeds to the interior *via* Tsingtao and Tientsin, there remains for Manchuria only a fraction of the whole. The total exports from Japan to all destinations in 1929 were yen 2,149 million (over £200 million*) ; her exports to Manchuria were 138 million Haikwan taels (roughly £17 million*), which means that Manchuria takes 8 per cent. of Japanese exports. As an existing market it thus has a comparatively small value, whatever may be its prospective value in better times when Chinese immigration has filled its empty spaces. For purposes of comparison - and to place the whole hyperbole of Manchuria in its proper perspective - we put on record the fact that Japan's export to the United States is worth six times as much as her export to Manchuria.

As a source of supply for Japan, Manchuria has a somewhat different tale to tell : for in 1928 Manchuria supplied one third of her pig iron (British India supplying one half) and two thirds of her imported coal. Of iron ore Manchuria supplied none, the whole import being divided almost equally between China proper and the Straits Settlements. Of the soya bean Japan takes twice as much from Manchuria as from any other area ; but a still greater part of the total Manchurian production goes to Europe and America.

* Conversion from these currencies into pounds presents very difficult problems, as the yen was not at that time anchored to gold and the value of the tael fluctuates with the price of silver. The figures in sterling have been inserted only in order to give the English reader a rough idea of the magnitudes involved.

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Thus it is to be concluded that the economic value of Manchuria to Japan is considerable, but by no means so great as is often assumed. As a source of coal and the heavy metals it is important, and from the point of view of supplies in time of war even more valuable if not vital; as a source of food supply it is not negligible; but as a factor in the total trading interest of Japan it cannot for one moment be compared with China proper, or the United States; while even India is a better customer than Manchuria. And when we reflect that the trade of Great Britain with Manchuria is £7,000,000 it will be seen that our legitimate stake in the future of the country is no mere thistledown and that the Japanese claim to an exclusive interest finds little support in cold fact. We have good reason to insist that in any negotiation between China and Japan the "Open Door" shall not be closed.

Let us now resume the general argument. The colonisation policy, having failed to transplant Japanese settlers to Manchuria, achieved a limited success with the Koreans; but even this partial success had awkward consequences for Japan. It added a new point of friction to the rapidly deteriorating relations with China, and in 1931 led to a series of incidents in south-eastern Manchuria, in certain districts north of Chang Chun and in Korea itself which materially contributed to the present crisis. Disputes between Korean and Chinese farmers over irrigation rights and other things provoked disturbances near Chang Chun, as well as south of Mukden, and led to anti-Chinese riots in Seoul and Chemulpo. Strongly worded notes passed between Nanking and Tokyo, but their importance was soon overshadowed by the greater crisis to which we must now turn.

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II. THE TROUBLE SPREADS SOUTHWARD

THE general situation in Manchuria has undoubtedly deteriorated during the last three years. Three causes appear to operate. After Marshal Chang Tso-lia's death his son exercised a weaker control and disorder grew apace. In the second place, the economic depression of the world depressed Manchuria because of the lessened demand for her major products, and thus created new unrest among the peasants. In the third place, the advance of the revolutionary sentiment from the south introduced a political factor of disturbance which had hitherto played but a limited part. And it ought perhaps to be added that Japan is not guiltless of allowing her agents to play the part of *agents provocateurs* in the general *mélée* of banditry, economic distress and intrigue. As this condition developed, the long controversy over Manchurian railway questions came to a head. The Chinese had, for some years, openly violated the terms of the original railway agreements of 1905 and 1915 and had pushed forward the construction of lines avowedly designed to compete with the South Manchurian Railway and to make the port of Hulutao the rival of Dairen. Against this violation the Japanese Government has never failed to protest and has used every device in its power to persuade or compel the Chinese to desist, or at least to confer with the directors of the South Manchurian Railway upon the whole problem. At the same time, successive presidents of the S.M.R. have declared that there is room for all the railways now operating or planned, but that their economic co-operation will be impossible if they are not co-ordinated.

Last June a new president of the S.M.R. was appointed in the person of Count Uchida, a former Foreign Minister. The Japanese press had expected to see a business man placed in the post, and saw in the choice of a politician so

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entire a new proof of the importance of the whole Manchurian problem and a sign that the Japanese Government hoped to secure a settlement by amicable means. It was announced at the same time that a Sino-Japanese joint committee had been set up to investigate railway construction, and, in the semi-official words used in Tokyo, Japan intended to "spare no effort to reach a comprehensive settlement." The principal Chinese delegate at the proposed conference was Kao Chi-yi, whose antecedents did not inspire much confidence. Mr. Kao was that confidant of the Young Marshal Chang Hsueh-liang who in December, 1928, in the ante-chamber of the Marshal's dining-room, had shot Chang Yin-huei, the Tuchun of Heilung-kiang, and had received as his reward the reversion of the latter's lucrative post, the directorship of the North-Eastern Railway Commission, which controls all the purely Chinese railways in Manchuria as well as the Chinese interest in other lines. During the weeks that followed Count Uchida's appointment eight months ago negotiations for the proposed conference were undertaken, and at a preliminary meeting the opening date of the conference was decided. But when the day came, Kao Chi-yi was not to be found. Mukden was combed out for the missing director and he was eventually run to earth in a strange resort, but once more gave his trackers the slip and has not since appeared in Mukden. For meanwhile events of greater moment put the conference out of men's minds.

It is significant that at the time when the conference was due to meet Japanese feeling in Manchuria was running very high, and that the S.M.R. Board had declared that it might be necessary to "discipline" some of the more ardent Japanese patriots in order to calm the atmosphere. Their endeavour was to convince Mukden, Nanking and the world in general of the sincerity of their attempt to establish a co-operative policy, and to prove beforehand that if the attempt failed Tokyo would not

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be to blame. But the events related in the December number of *THE ROUND TABLE** not only destroyed the railway conference but aroused the suspicion that persons in high position both in Manchuria and in Tokyo had never any intention that it should succeed. In this matter, as in many others, the dual character of the Japanese Government, whereby the Foreign Office and the fighting services pursue conflicting aims, was well illustrated, and one of its results is that the Japanese case loses much of the international support that it otherwise deserves. This does not mean that the general admiration of Japan's economic achievements in Manchuria would make the world approve of a Japanese annexation; still less does it suggest that any other final result is probable, possible or justifiable except a Manchuria wholly Chinese; but it implies a genuine desire to see the claims of Japan, based on past agreements, justly treated. The Japanese have themselves endangered their interests more heavily than any Manchurian bandit or even Mr. Kao Chi-yi himself could ever do, and have beclouded their own rights by intemperate action. The plea of Chinese obstruction, procrastination and disorder, while pointing to the radical cause of all this evil, is no more than an excuse on the lips of the military party in Japan, who, *more suo*, have taken the wrong way of dealing with it.

Had the Japanese Government conducted its policy in Manchuria in 1931 with greater restraint and foresight the trouble would not have spread to the Yangtze Valley and thence to the rest of the world. The trouble did so spread for reasons that are well known. As already shown above, the authorities of the South Manchurian Railway have never failed to protest against Chinese violation of the railway agreements of 1905 and 1915; but with every Chinese attempt to evade the issue raised by their own railway policy Japanese impatience grew. Though Japan felt she had a serious grievance against China in this

* *THE ROUND TABLE*, No. 85, December 1931, p. 91.

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matter, she refrained from strong action until disorder in Manchuria actually threatened the physical security of her own railway. Last year the South Manchurian Railway was attacked by bandits almost every week; and as the Japanese believed they could get no redress from the Chinese Government they took matters into their own hands. But it seems very likely that the Japanese military authorities in Manchuria went far beyond the first intention of the Government in Tokyo, and they took such drastic action that Chinese reprisals were provoked in the form of the boycott all over China, and especially in Shanghai.

Shanghai became the centre of disturbance because in it Japanese interests are greater than in any other part of China, because there were more Japanese goods to interfere with and because the more extreme forms of Chinese nationalism are there at their strongest. In a word, Japanese interests in Shanghai offered to the Chinese boycotter a big target at which he naturally aimed his shafts. Naturally, too, though unwisely, the Japanese retaliated by attacking the centres of boycott organisation, which lie in Chapei. Thus, though the direct connection between Manchuria and Shanghai is not at first obvious, disorder in Manchuria provoked Japan to act, Japanese action in its turn provoked the Chinese boycott, and the boycott set Shanghai ablaze.

By their fatal failure to foresee the political consequences of an undefined military policy the Japanese are now on the defensive before the opinion of the whole civilised world, and a problem capable of treatment by firm and patient political action has become a danger to the common peace. The Japanese have themselves to thank if the Powers seem now disposed to take a hand in the Manchurian settlement. Henceforth it will not be possible to pretend that Manchuria is the parochial cockpit of a local conflict or a preserve of Japanese colonial capitalism in which she can do what she likes regardless of Chinese or other interests. The imperialist nationalism

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which rules the mind of the General Staff and the secret powers near the throne in Tokyo must give way to a more temperate, less exclusive philosophy, and the Japanese nation must understand that the collective system of international co-operation has come to stay.

It is true that the treaties of 1905 and 1915, on which Japan takes her stand, directly concern China and Japan alone : for no other Power was a party to them : and in strict punctilio Japan may conceive herself justified in excluding any other participation. For ordinary practical purposes such bilateral procedure would not be criticised by any other authority, not even the League. But when the subject has proved intractable, when a new and vastly more important international instrument than any Manchurian treaty has since been created in the Covenant of the League for the handling of such disputes, when, moreover, both parties to the dispute are also signatories to the Covenant, the case is profoundly altered. At no time during the making or signing of the Covenant did Japan challenge its jurisdiction in the Far East ; she made no attempt to restrict its operation, in the way she endeavoured to exclude from the Consortium Agreement, for instance, certain of her Manchurian and Mongolian undertakings ; and, at the very height of this Far Eastern crisis, one of her own representatives (Mr. Sato) acted as the mouthpiece of the League in the Polish-Ukrainian controversy. In all this Japan has cut the ground from under her own feet, and her refusal to permit any third party to play broker in the Manchurian dispute cannot be accepted. It presumes the right of Japan to dictate as in 1915 the manner in which this negotiation shall proceed and to prejudice, indeed to determine beforehand, the issue of all negotiation ; it denies the existence of any international interest in Manchuria ; it is deliberately adopted as the easiest way to exploit the weakness of China, and it robs Japan's signature of the Covenant and the Kellogg Pact of much of its moral value.

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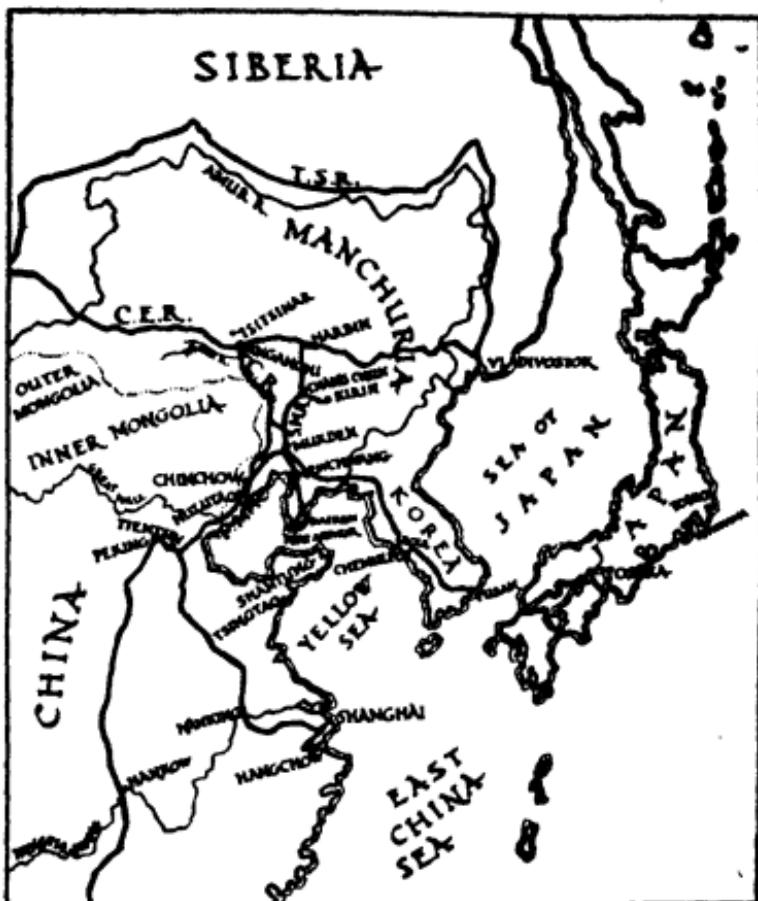
The Council of the League itself is much to blame. Making full allowance for the need of caution in handling the Manchurian dispute, making further allowance for the knowledge that some of the Chinese had offered Japan at times the greatest provocation, it is difficult to believe that the Council of the Stresemann-Briand-MacDonald days would have acted so feebly. The Council is not an executive body, but it allowed at least one opportunity to pass in which action would have had an executive effect. When the Japanese forces were proceeding westwards from Mukden last autumn, the Council could have interposed to set up the nucleus of a neutral zone by placing in Chinchor an international garrison drawn from the ships and battalions of the Treaty Powers, members of the League, then serving in the Far East. Such action would have calmed the situation at once and much of the tragedy since enacted would have been averted. To-day the re-entry of the League upon its path of international duty depends more on the success of Anglo-American intervention in Shanghai than upon the Lytton Commission. If and when the Shanghai incident closes without war, the League must act with greater resolution; and when the Lytton Commission reports, the Council and the world ought to be in possession of a comprehensive review of the Manchurian problem more complete, up to date and authoritative than any that has yet been made. The Lytton Commission was created by unanimous resolution of the Council on December 10, 1931, in order "to contribute towards a final and fundamental solution by the two Governments of the questions at issue," and it is empowered "to study on the spot and to report to the Council on *any* circumstance which, affecting international relations, threatens to disturb the peace between China and Japan or the good understanding between them on which peace depends." Theirs is a wide mandate indeed!

To this resolution both China and Japan made certain

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reservations, but none of them touched the fundamental function of the Commission, and, although either party may hereafter demur to the conclusions of Lord Lytton and his colleagues, neither of them can repudiate its part of responsibility for setting in motion an engine of international enquiry which may carry them both far from where they now stand. It goes without saying that, if the Lytton Commission plays the part assigned to it with a statesmanlike insight, the partisans of extreme nationalism on both sides of the China Sea will gnash their teeth, for no honest enquiry can give either of them a clean sheet; but the partisans of a just settlement will all the more rejoice. The Lytton Report may yet prove to be the means whereby Japan will discover that the dual character of her Government is fatal to sound policy, and China will learn that her domestic peace and her place in the family of nations cannot be secure until her people establish a government of real authority over them.

SKETCH MAP OF JAPAN, NORTH-EASTERN CHINA AND MANCHURIA



C.E.R. stands for Chinese Eastern Railway (Sino-Russian).

S.M.R. stands for South Manchurian Railway (Japanese).

T.S.R. stands for Trans-Siberian Railway (Russian).

C.R. stands for the combined Chinese lines, some built with Japanese capital, some with Chinese capital, which are intended to compete with the S.M.R.

P.M.R. stands for Peking-Mukden Railway (Chinese).

NOTE.—Only the main-line through railways have been marked on this map. For fuller information on the railway position in Manchuria, see the ROUND TABLE, No. 70, March 1928, p. 256.

THE RESULTS OF THE ROUND TABLE CONFERENCE

I. GREAT EXPECTATIONS

NO good purpose would be served by attempting to disguise the fact that the results of the Round Table Conference have fallen very far short of the expectations formed when the Conference first assembled in the autumn of 1930. Even at the end of the first session, a year last January, in spite of the difficulties which still stood in the way of settling the fundamental points at issue between the majority and the minority communities, and particularly between the Hindus and the Mahomedans, the outlook was not devoid of promise. The glowing conception of an all-India federation had emerged and had been acclaimed by every section of opinion represented at the Conference table, by British, British Indian and Princes alike. Considerable progress, too, had been made towards defining the subjects with which the Federal Government would have to deal, and towards the delimitation of the respective spheres and powers of that Government and of the Governments of the Indian States. Best of all, the Indian delegates and most of the British delegates found themselves in general agreement upon the vital question of the limitations to be imposed upon the autonomy of the Federal Government when it came into existence. In other words, the thorny problem of safeguards concerning defence, external relations, finance and commerce appeared to be well on the way to solution. It is true that the British Conservative delegates reserved their opinion on this crucial matter until they could see the picture of the future government as a whole, and know exactly what they were being asked to agree to. Nevertheless, as the speeches of

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Lord Peel and Sir Samuel Hoare showed, the Conservatives were deeply impressed by the unanimity of the Indian delegates on the question of an all-India federation, and were fully aware of its possibilities. They realised that an autonomous political unit of this kind would bring far greater stability than could be expected if British India were to stand alone. Thus, when the first session of the Round Table Conference ended, there were strong hopes that the basis of an agreed constitution for the whole of India would be reached at a later session. But for the problem of minority safeguards, the confidence would have been almost complete.

Compare this situation with the circumstances in which the second session of the Conference came to an end at the beginning of December, and—a still more painful contrast—with the condition of India to-day. Why were the hopes of the first session not fulfilled, and why have things come to the present pass in India?

II. THE COLD FIT

TO answer these questions it is necessary to turn to developments in India during the interval between the end of the first and the beginning of the second sessions of the Conference, that is, between January and September. The essence of these developments can be put in a single sentence. The unanimity on the question of an all-India federation, which was the outstanding feature of the first session, had been steadily melting away. This disintegration started in more than one quarter at the same time. In the first place, Hindu-Moslem relations became more and more strained as the weeks went by. The terrible affair of Cawnpore, the trouble at Benares, the first outbreak in Kashmir, and the rising tide of Mahomedan feeling consequent upon these and other events resulted in a prodigious amount of political activity among the Mahomedans.

The Results of the Round Table Conference

Hundreds of public meetings were held throughout the length and breadth of India, at which their spokesmen expounded their claims and the safeguards which Mahomedans must demand if they desired to maintain their civic and religious rights unimpaired in a self-governing India. And gradually, as was to become apparent at the second session of the Conference, the Mahomedans became so obsessed with the importance of these claims and safeguards that everything else was relegated to the background. The all-India federation lost its attraction for them, since they knew that, whatever weightage might be given to them in the federal legislature, the Hindus would still remain a strong majority. Moreover, they perceived that the inclusion of the Indian States in the federation would strengthen the Hindu position, since the vast majority of the people of those States are themselves Hindus. The Mahomedans, then, returned to the Round Table Conference last autumn with their minds set upon two things: first, the undesirability of proceeding any further with the idea of an all-India federation until their own claims had been conceded; and, second, a refusal to abate any jot or tittle of their claims. What these claims were we shall shortly see.

But it was not only on the Mahomedan side that the enthusiasm for federation had cooled between January and September. The Indian Princes who declared for federation at the first session asserted that they had no doubt that their views would be shared by the majority of their brother Princes. It is, however, difficult to find any confirmation of this prediction in the event, and during the summer one of the most important of the representatives of the Princes at the Conference, the Maharajah of Patiala, issued a manifesto in which he receded from the position that he had taken up at the Conference on the question of federation in favour of an alternative plan; briefly, this contemplated a closer union of the Indian States themselves through the medium of an improved and strengthened Chamber of Princes, which could act

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for princely India as a whole vis-à-vis British India and its Government. It was, moreover, soon apparent that the Maharajah's revised views were meeting with considerable support from other Princes, and their Highnesses of Dholpur and Indore, to mention two of his more important supporters, joined their voices to his. In fact, it became increasingly clear that, as the implications—financial and political—of federation became better understood, the Princes liked the prospect less and less, and some even of those who did not declare against federation or favour the Patiala-Dholpur-Indore scheme have, nevertheless, asserted more narrowly the conditions on which they will go into federation.

Lastly, the All-India National Congress regarded the proceedings in London with undisguised disfavour. An all-India federation would obviously not be under their control. The Princes and the Mahomedans alone could, and would, see to that. In spite of the Irwin-Gandhi pact, the Congress working committee proceeded with their anti-Government activities and propaganda, afraid lest the promise of the Round Table Conference should be realised and their own position and prestige destroyed. The results already achieved by the Conference were derided by them, and the modifications of Indian autonomy, which Sir Tej Bahadur Sapru and the other Indian delegates were prepared to accept, fiercely denounced, with the result that some even of the moderate delegates began to feel that these modifications ought to be watered down. The Indian Princes also came in for their share of attention. Congress spokesmen emphasised the undemocratic character of government in the Indian States, and the duty of British Indian delegates to take up the cause of their peoples. Some measure of popular representation must, they urged, be insisted upon as a condition of the States being allowed to enter into a federation with British India. Congress orators even went so far as to say that the whole princely order would be swept away by them when India

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achieved her independence. Congress, then, had no helpful contribution to bring to the cause of all-India federation.

III. THE SECOND SESSION

THUS the second session of the Conference opened in ominous circumstances, and the presence of Mr. Gandhi, while it heightened the interest of its proceedings, did nothing to further its labours. He was, indeed, too deeply committed by his previous acts and declarations to be able to take a constructive part in work directed to the creation of a federal India which, though largely autonomous at the centre and almost completely so in the provinces, would have its autonomy restricted in some of the most vital of the Federal Government's functions. From the outset of the second session it was clear that the Mahomedans were more united and determined than they had been before, and it speedily became apparent that the initiative was in their hands. It will be remembered that the first session ended in a deadlock over the problem of safeguards for the minorities. That deadlock continued. The minorities sub-committee of the Federal Structure Committee met at once, came to no solution, asked for an adjournment, still came to no solution, and asked for another adjournment, which Mr. Gandhi, who had been acting as convenor and chief mediator, declared would be the last he would ask for. In due course, at a meeting of the Federal Structure Committee, he announced to the Prime Minister that he had failed to negotiate any compromise between the majority and the minority communities. His own attitude had not made the attainment of one very easy, for he steadfastly refused to listen to any proposal for a separate electorate for any community except the Mahomedans, the Sikhs and the Europeans. In particular, he was adamant on the question of separate electorates for the depressed classes, insisting that they

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were Hindus and must be brought within the pale of Hinduism, both in religion and politics. The majority of the depressed classes would, no doubt, be perfectly willing to be regarded as Hindus, if the higher castes would treat them as such, and allow them access to the temples, schools, wells, public buildings, and so on. But their spokesman, Dr. Ambedkar, who was just as determined as Mr. Gandhi, though in the opposite sense, would not hear of any settlement which did not give his community separate representation, and on this point he broke completely with Mr. Gandhi. The depressed classes were solidly supported by the other minorities except the Sikhs, who were, however, concerned with only one province, the Punjab, in which they had made up their minds that the Mahomedans should not be guaranteed a majority on the Council, and who were superbly confident in their own ability to look after themselves. To the Mahomedans Mr. Gandhi was prepared to make very wide concessions, although, had the occasion to make these concessions actually arisen, he would have been strenuously and quite openly opposed by Dr. Moonje, the leader of the All-India Hindu Mahasabha, whom, with sublime egocentricity, he did not think it necessary to consult. However, the deadlock reached on the question of separate electorates for the depressed classes, Indian Christians and Anglo-Indians brought the negotiations to an end before the critical points at issue between Hindus and Moslems could be thrashed out. And these points raise fundamental questions. Their essence is not to be found in the Mahomedan claim for this or that percentage of seats in the central or provincial legislatures, or in the demand for a fair proportion of places in the government services, or in other lesser claims of a formal character. It lies in their claim for a statutory majority on the Bengal and Punjab Councils (their request that Sind and the North-West Frontier should become full major provinces with all their appanages in the way of governor-in-council and legis-

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lature had already been granted) and in the demand that the provinces should be vested with every power that could possibly be taken away from the central Government. The pith and marrow of their claims are there, for in this way they would obtain complete control over north and north-western India, since between Delhi and Patna lies a corridor which is still strongly Mahomedan, where the old traditions of Mahomedan rule linger. Secure in their control of this, the most important part of India—for it is the key of the land frontier—the Mahomedan could rest secure, confident that his culture and religion would develop and expand, and that he could protect the scattered minorities of his co-religionists in other parts of India. This, then, is the gist of the Mahomedan claim to-day, and it is easy to understand that, if it had come to the point, the Hindu representatives could not have granted it. The Sikhs, moreover, from the very beginning of the Round Table Conference, have never faltered in their determination to resist to the end any attempt to give the Mahomedans a statutory majority in the Punjab over all other communities combined. Here, too, there is complete deadlock at present.

This account of the difficulties of the minorities problem will help the reader to understand why the results of the Round Table Conference have hitherto been so disappointing. Still more important, it will enable him to realise the scope of the task before the British Government if it ever decides to settle the question itself in the absence of an agreed settlement between those concerned. Enough has, at all events, been said to show that at best His Majesty's Government can only impose a standstill arrangement, which could do no more than prevent this fundamental problem from becoming more and more insoluble as the poison of discord spreads.

Thus the Federal Structure Committee of the Conference—only this Committee and the Minorities Committee were summoned in the first instance—was

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compelled to confine itself to the fringe of its subject, and to deal with more or less formal matters, such as the question, of the supreme court, of the division of powers between the two houses of the proposed federal legislature, and so on. The sudden and, from the point of view of the delegates, the lengthy interruption caused by the general election inevitably enhanced the formality of the atmosphere, for all the British delegates who were members of the House of Commons had to be away in their constituencies. The Indian delegates showed the most admirable restraint in these trying circumstances, and no praise is too high for the sense of patriotism, understanding of the difficulties of their British colleagues, and the devotion to duty that they showed. Lords Sankey, Peel, Lothian and Snell did work of incalculable value in helping their Indian fellow delegates to keep up their spirits, and to press on with such work as could be done under these trying conditions.

And one problem, the thorny question of federal finance, was examined during these days by a sub-committee of the Federal Structure Committee under the chairmanship of Lord Peel. Here again the Conference had to face delicate and important issues, for finance is the life-blood of politics, a subject which, the Princes knew, touched not only their pockets but their internal sovereignty. Naturally they walked warily and preferred to have concrete proposals, specimen budget figures and so on set before them, before committing themselves to any definite arrangement. The report of the sub-committee did not therefore put forward any scheme for a federal financial system for all India, but it did contain a survey of the problem and its difficulties, and it carried the matter an appreciable step forward with its proposal—unanimously accepted—that two committees should be formed to continue the investigation in India and to find out the facts on which an ultimate settlement would have to be based.

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But by the time that all this had been done and Parliament had reassembled, the life of the second session of the Conference was obviously drawing to its close. Yet the Conference had hardly even touched its main business—the great question of the degree of autonomy that should be given to the all-India Federal Government, in other words, of the safeguards that would be required by Great Britain and accepted by Indian nationalist opinion, and particularly by its left wing represented by Mr. Gandhi. Bound up with this problem were, of course, the vitally important questions of the safeguards and privileges claimed by the minorities, and of the place that the Princes were to occupy in the federation. Inside princely India, moreover, there was the further question of the relations between the smaller Princes and their more powerful brethren. None of these matters had been settled, and time was pressing. And at this point another deadlock occurred. The Mahomedans announced their definite refusal to discuss the question of autonomy at the centre and of British safeguards until the minorities problem, and especially their own claims, had been dealt with—until, in a word, they knew where they stood. Since the breakdown of Mr. Gandhi's negotiations with them and the other minorities, they one and all—with the exception of the Sikhs and a section of Indian Christians—had agreed upon a number of basic conditions which must be fulfilled before they would enter into a federation, and they presented to the Prime Minister a document signed by the leaders of the various minorities concerned in which these conditions were set out. There is no need to recite them in detail, for they simply reduced to black and white the fundamental claims that have already been discussed, and the actual percentage of representation claimed by the various minorities in the different legislatures—federal and provincial. This deadlock proved to be insuperable, at any rate in so far as the Mahomedans were concerned. The question of the degree of autonomy to be granted to the

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all-India federation and of safeguards in the spheres of defence, external relations, finance and commerce was discussed, but the Mahomedans took no part in the discussion. It was impossible therefore for the Federal Structure Committee to report any definite conclusions on these matters.

In fact, it became clear towards the end of the session that the Mahomedans are not at present ready to proceed with any scheme of autonomy in Indian government outside the provincial units, and they made no secret of their attitude. The great majority of the Hindu delegates, on the other hand, would not have anything to do with this point of view, and, believing that His Majesty's Government was contemplating the introduction of provincial autonomy, leaving the arrangements at the centre virtually unchanged, they sent a strong protest to the Prime Minister and published it in the English press. Thus right up to the end of the session a state of uncertainty, disagreement and impatience persisted. There was an orgy of speech-making at the final plenary meetings, but it simply served to bring out the discordant, irreconcilable views which have hitherto made it impossible to construct any scheme which would apply all round, or have any chance of receiving general assent.

If Mr. Gandhi's name has entered little into this narrative it is because, apart from the fact that he represented the views of the All-India National Congress, he played a comparatively unimportant part in the proceedings. He had no constructive proposals to make, either at the meetings of the Conference or in his private talks with British politicians and others, and far from being the spokesman of all sections of Indian opinion he could not even speak as the representative of the Hindus; for the more constructive minds among them soon grew impatient at his academic utterances, whilst the other elements resented, and indeed openly repudiated, his claim to speak for the whole of India. There is little doubt that he could have

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played a great part had he chosen to turn his mind to construction instead of to destruction, and if he had set himself seriously to understand the point of view of the minorities. But in London, though he often seemed to be on the point of throwing his influence on to the side of construction, he relapsed into the rôle that he has so frequently played in India, that of destructive critic.

IV. THE RESULTS

AND so it came about that Mr. MacDonald's statement—the last act of this fateful second session—had on the whole to record a failure. It reaffirmed the determination of His Majesty's Government to do all that it could to assist the creation of such a federation of all India as the Prime Minister had foreshadowed when he closed the first session in January 1931. It also announced the decision of the Government to press on with whatever preparatory work could be done in the meantime—the revision, for instance, of the franchise was to be considered by a franchise committee, and the work of the two financial committees referred to above was to be continued. Further, a working committee of the Conference was to be set up in India to keep in touch with the Viceroy and, through him, with the British Government. The Prime Minister had also to announce that the sense of the Conference was against making any change in the constitution of India, such as the introduction of provincial autonomy, until it could be effected by a general statute as part of a comprehensive scheme covering the whole field of government in India. He dealt carefully with the minorities problem, hoping that the leaders of the various communities might be able to reach agreement among themselves, and he added that, if they did not, His Majesty's Government might have to put forward a provisional scheme.

The Results

Slight as these results are when compared with the hopes that were pinned upon the Conference, they are at any rate more satisfactory than they would have been had the British delegates made any attempt to exploit the deep differences that we have described. Much of the credit for keeping the Conference going at all is due to Lord Sankey and his British colleagues. Parliament also played its part nobly in the proceedings subsequent to the Conference, for it supported in ungrudging fashion the policy of the Prime Minister and the Government which is outlined in the statement discussed above. The House of Commons rejected Mr. Churchill's hostile amendment by a shattering majority, and the House of Lords, in regard to whose action it is no secret that the Government felt many qualms, accepted the statement of policy by a handsome majority after a debate in which Lord Irwin participated.

In the meantime, Congress has once more plunged India into unrest,* and other sections of political opinion have followed its lead. The Franchise and Finance Committees are likely to find much the same elements boycotting them as boycotted the Simon Commission. Some of the Liberals, and, this time, all the Mahomedans, will co-operate with the Committees, but the question inevitably arises, how long can we go on with our schemes of reform while large and influential sections of Hindu opinion boycott them and render the co-operation that we desire impossible? The Government of India must maintain order—Lord Irwin is just as strong upon this point as Lord Willingdon. The road to an all-India federation is by no means so smooth or so straight as many people imagined. That is the lesson of the Round Table Conference up to date.

* An account of events in India after the rising of the Conference will be found on page 322.

REPARATIONS IN PRACTICE

I. THE ECONOMIC ESCALATOR

SINCE the early autumn of 1929, when the stock market crash in New York released the brake from the forces that were already impelling prices towards their present disastrously low levels, the economic world has been slipping down a vicious spiral. At times its progress has been sickeningly swift, but every now and again descent has been checked either by normal counteractive economic forces or by special events like the Hoover moratorium or the institution of a coalition government in Great Britain, and there has intervened a period of quiescence and readjustment, if not of recovery. As these lines are written we are passing through just such an interval. There has been, in the past few months, no further catastrophic fall of commodity prices; indeed the depletion of stocks or the restriction of output has in some cases already brought about a rise. Emergency financial measures in the United States, whatever their ultimate effect, have at least checked the gloomy procession of bank failures to which we had become accustomed. Certain of the countries exporting primary products, including Canada and Australia, have succeeded in building up an export surplus in spite of the low level of prices. A new standstill agreement has just been signed for Germany, who by dint of the most painful belt-tightening has built up an export balance of trade sufficient to meet her current obligations for interest and sinking fund, though not for any considerable repayment of her short-term debt. The political situation in Europe, described

The Economic Escalator

at length in an earlier article,* if it bears all the signs of complete deadlock, has not grown perceptibly worse in the last month or two. But the comparative tranquillity of the moment must not lull us into complacence. The vicious spiral is unfortunately an escalator, which must carry us downwards, even though our relative descent is checked, until the movement is definitely reversed. With every month, every week that passes, hope ebbs away, scepticism sits more firmly in the place of confidence, and nearer and nearer comes the inevitable day of reckoning, when issues can no longer be evaded and readjustments must at last be made. If the times are not for us, they are against us; and if we are not recovering, we are sinking.

The economic world, it is true, is making its readjustments. Bankruptcies, exhaustion of stocks, reduction of wages, suspension of interest payments, devaluation of currencies, budgetary economies, changes in international trade balances—these processes are tending to bring about a new state of equilibrium, with several disastrous features such as colossal unemployment, it is true, but capable, if once an upward movement begins, of forming the basis of a new expansion of our economic life. Unhappily, no such expansion is yet in sight, because the confidence is wanting which is absolutely essential for its commencement and continuance. The lack of public and commercial confidence, resulting from political disturbance, operates both nationally and internationally. Certain countries, either because of their inherent economic strength or because of their abandonment of the international gold standard and the control of their balances of payments, are in a position to embark locally upon a moderate measure of industrial expansion without putting their international economic relations into serious jeopardy. The most obvious example is, of course, the United States, who, in spite of her recent heavy losses of gold, is quite capable of indulging in a programme of raising internal prices without doing

* See p. 227.

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any grave harm to her external balance of payments ; she is indeed launching a series of legislative experiments with the aim of assisting private banking enterprise, which has sunk into such a precarious condition that banks with liabilities totalling over \$2,000 million (£400 million gold)* have suspended payment since October, 1929. But so depressed is the state of public confidence that even these endeavours are likely to fail if nothing new transpires, in the field of public affairs, around which faith may crystallise. The initiation of inflation, except by the disastrous method of budgetary failure, requires a measure of confidence among business borrowers as well as easy credit conditions. In the international sphere, the efforts of one country to construct a new equilibrium in its international balance, by tariffs or exchange control or other measures, have frequently succeeded only in rupturing the equilibrium attained by other countries, who have been driven to still further restrictions, international trade meanwhile sinking lower and lower both in value and in volume ; as Sir Walter Layton recently observed, " Everything balances at zero." Normally differences in current balances of payments are financed by international lending, at short-term and at long-term, and this has been the proper and profitable method whereby the wealth of the world has been expanded. But now the freezing of one block after another of international banking assets, and the entire lack of confidence in the soundness of potential borrowers, have brought international lending to a standstill, and indeed the mere necessity of self-preservation has led many of the creditors to attempt repatriation of their funds as swiftly as possible. A slight revival of confidence, and repatriation might be arrested : a little more, and short-term lending on self-liquidating security might be a little expanded ; still more, and a few long-term loans might become marketable. The paralysis of the international banking system is

* All conversions from foreign currencies, whether it is so stated in the text or not, have been made at former rates of exchange.

Reparations and the Crisis

caused by want of confidence, and the want of confidence is, in very large measure at least, caused by political difficulties.

II. REPARATIONS AND THE CRISIS

If one were to ask any practical business man what single measure would do most to restore the confidence of lenders and to reverse the motion of the economic escalator, he would certainly answer : a settlement of the reparations and war debts question—though opinions would naturally vary as to what would constitute a just settlement. Assuming that he is right, it is as well to compare some of the magnitudes involved in order to convince ourselves of our folly in allowing this problem to drag on, apparently no nearer to solution than it was six months ago. The capital sum represented by the Young Plan annuities has been estimated at £2,100 million gold, which is roughly one half of the nominal value of British capital invested abroad and likewise about one half of our normal national income per year ; the fact that in the course of the present crisis the industrial output of Germany has declined by about one third, that of the United States by one quarter, and our own by perhaps one fifth, is sufficient proof that the current loss of wealth in the world in a single year, through the continuance of the crisis, far exceeds the total amount payable in reparations over a period of nearly 60 years. The payments to the United States suspended in the Hoover moratorium year amount to £54 million, but the prospective deficit in the Federal budget for 1931–32 (before allowing for emergency taxation or economies) amounts to £436 million, notwithstanding the fact that there is no direct federal appropriation for unemployment relief. Great Britain's average annual receipts from reparations in the first 37 years of the Young Plan amount to £17½ million ; whereas £114 million was paid in 1931 in unemployment

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insurance benefits. The direct and proportionate connection between these several items may be open to question, but at any rate it is beyond doubt that, whatever the direct financial effect of such a policy on national budgets, the sweep of the sponge on the reparations and war debts slate would, as the first move towards economic recovery, be financially advantageous to all concerned.

Let us, therefore, for the moment leave all political considerations aside and ask why the abolition of reparations in particular would be expected to have such disproportionate economic effects. The history of the payment of reparations from the German side, like the history of reparations in its political aspect also, can be divided into two periods, before and after the Dawes Plan. Up to 1923, Germany's internal budgets had not been regularised, and her external balance of payments likewise contained abnormal and unstable items. The transfer of capital assets already abroad did not, of course, present any exceptional problems in international exchange. A capital levy in 1919, and other measures of heavy taxation were not, however, sufficient to meet the other reparation demands of the Allies, based on the fantastic figures of capital liability that ruled in that period. Nor was the transfer of the actual cash payments across the international exchanges effected by dint of normal current items in Germany's balance. She had, in fact, a large inward balance of commodity trade. The speculation in marks alone—a process which left speculators outside of Germany with assets which afterwards became practically worthless—provided Germany with sufficient foreign exchange to meet her cash reparation payments. The Ruhr occupation, whatever its merits in convincing Germany that France was in earnest, was hardly an immediate economic success. Up to 1924, therefore, it is possible to say that both internally and externally the payment of reparations was at once the cause and the product of the catastrophic inflation of the mark.

Reparations and the Crisis

With the signature of the Dawes Plan in August, 1924, a new chapter began which lasted up to the beginning of the violent fall in prices and the reversal of international credit movements, two years ago. Confidence in the future of German economy was restored, and from 1924 to 1930 inclusive, Germany imported a net total of £900 million of foreign capital, including £450 million of long-term loans. These sums (except the Dawes Loan) were not lent with the direct object of furnishing the wherewithal to pay reparations. They were lent, for the most part, to German banks, industrial firms and local governments, which had no direct reparation debts. But they did two things: they provided the foreign currency for which the reichsmarks raised by the Reich Government could be exchanged, and they so far enlarged the annual income of the country that reparation dues could be raised without, for the moment, any enormous budgetary insolvency. A small proportion of the loans was undoubtedly spent on assets of an extravagant and non-productive character, such as the bathing establishments which have received such publicity in the American press, but by far the greater part was expended on the development of Germany's resources and the supply of working capital, of which Germany had been denuded by the inflation.

But while for the time being this régime worked satisfactorily, it was piling up dangers for the future. In the first place, despite the increase of wealth that the influx of foreign capital involved, and despite the budgetary measures imposed by the Dawes Plan, the German Government still found it difficult to raise sufficient taxation to meet both its internal and its external obligations. In the first two years of the Dawes Plan, special resources were provided under the Plan for the payment of reparations. Between 1926 and 1931, the Reich budget showed an accumulated deficit of £133 million, compared with an expenditure of £440 million on "external war charges," but in considering the German economy as a whole it is

Reparations in Practice

more proper to take the accumulated deficit, over the same period, of the combined budgets of Reich, States, communes and Hanseatic cities, which amounted to £220 million, or one half of the reparation payments. Thus while externally Germany was virtually not paying reparations at all, internally she was raising by taxation, after meeting other public expenditure, only one half of the sums required. This was only to postpone the day of reckoning. In the second place, the interest charge on the foreign debts that Germany was incurring was gradually piling up, until in 1930 it amounted to at least £40 million (even after deducting interest on German investments abroad), that is to say, roughly one half of the reparation charge due in that year. This again made the future most hazardous. Third, and perhaps most important, the supply of working capital in Germany out of foreign funds was fraught with grave dangers. Short-term loans, wholly secure and self-liquidating individually, could not be withdrawn in any great volume simultaneously without bankrupting the country. The entire German economic life was placed at the mercy of foreign creditors and of conditions of political confidence. Finally, German economy was built up on the basis of an adverse balance of trade, the maintenance of which depended on the continuous inflow of foreign capital, and the reversal of which would entail a devastating upheaval of the trading relations between Germany and her neighbours.

The effect of these considerations began to be felt when the flow of foreign investment, much curtailed in 1929, was almost entirely dried up in 1930. Between 1928 and 1930, Germany was forced to change an adverse balance of trade of £65 million into a favourable balance of £75 million. The effort of finding this new net export of £140 million was enormous, and reacted very unfavourably, not only on Germany's own economic condition, but also on that of the countries with which she trades. Imports from the United States, for instance, fell by about £35

Germany Under the Moratorium

million in the two years, while Great Britain, France and Belgium likewise saw a large reduction in their sales to Germany. The latter's principal reparation creditors, along with Scandinavia and the American continent, were also the chief purchasers of her increased exports; France and Belgium between them accepted £28 million more of German products in 1930 than in 1928, despite the fall in prices meanwhile. There can be no doubt that the pressure of Germany's efforts to secure an export balance considerably accelerated the precipitate fall of world prices in those two years. Thus the lesson that, in default of lending, which scarcely solves the ultimate problem, reparations can only be paid in goods, was being very painfully learnt. Germany did indeed obtain, in the Young Plan of 1929, a reduction of her annual reparation obligations as compared with the standard Dawes annuity, but the almost complete cessation of capital movements, the continued fall in prices, and the collapse of central European credit following the failure of the Credit Anstalt, so injured her capacity to pay that had Mr. Hoover not intervened with his moratorium proposal she would almost certainly have been forced to declare a suspension of payments, possibly beyond the terms of the Young Plan.

III. GERMANY UNDER THE MORATORIUM

WHAT has been the economic position of Germany since she was relieved for the time being, in July last, of the obligation to pay reparations? In brief, the Hoover moratorium, largely because of the doubts and delays that accompanied its ratification, did not succeed in restoring confidence in Germany's economic position. The want of faith of her creditors in her capacity to sustain the great burden of foreign debt she has incurred, and their general loss of liquidity owing to the incapacity of debtors throughout the world to meet their obligations,

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and the huge depreciation of securities in general, caused them to continue their attempts to withdraw funds from Germany. The arrangement of a credit of £20 million for the Reichsbank, and the application of other special measures to safeguard the short-term obligations, failed to stem the outward flow. The seven-Power Conference, held at the end of July to consider the financial difficulties of Germany, recommended a renewal of the Reichsbank credit, a concerted arrangement among financial institutions to maintain existing credits in Germany, and the summoning of an expert committee to consider her whole credit situation. These proposals were carried out. The credits were renewed. The experts committee published their report (commonly known, after its principal author and the chairman of the committee, as the Layton-Wiggin report) on August 18; they were unable to recommend any definite plans for the consolidation of short-term credits and the provision of additional working capital for Germany, for want of any firm political foundation, and they thought it essential that, before the prolongation of credits came to an end, the governments concerned should give to the world the assurance that international political relations were established on a basis of mutual confidence, "which is the *sine qua non* of economic recovery," and that the international payments to be made by Germany would not be such as to imperil the maintenance of her financial stability. In other words, they tossed the problem back to the governments. Meanwhile the banking creditors of Germany, in conjunction with representatives of the debtors, had drawn up an agreement for the general maintenance of short-term banking credits in Germany, subject to certain conditions, for a period of six months. The agreement, which was due to terminate on February 29, 1932, did not cover by any means all the short-term investments in Germany—indeed little more than one half of the total of nearly £600 million—and the conditions were such that about one fifth of the credits covered by the

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agreement were actually repaid before the end of the year.

It seems appropriate to pause for a moment and examine the character and distribution of the private and public indebtedness of Germany to foreign countries. A careful census taken by the Reich Government at the end of July, 1931, revealed the following figures :—

FOREIGN INVESTMENTS IN GERMANY*

In Millions of Gold £s.

Creditor Country	Loans from Banks	Other Short-term Loans	Long Term Loans	Total
United States	.. 119	34	310	463
Great Britain	.. 81	19	76	176
France	.. 18	15	21	54
Holland	.. 62	39	55	156
Switzerland	.. 58	34	50	142
B.I.S.	.. 38	—	—	38
Other countries	.. 26	43	32	101
Total	.. 402	184	544	1,130

These figures do not include investments in real estate, participations in private firms, and other forms of "direct investment," estimated by the Wiggin Committee at roughly £300 million. Perhaps the most striking points that emerge from the table—both very important in relation to the political treatment of Germany's obligations—are the enormous size of American investments, especially in long-term loans, and the comparative smallness of French participation. The non-banking credits included in the second column comprise for the most part the deposits of foreign commercial firms arising out of or for the purpose of carrying on business in Germany, and credits extended between industrial or commercial concerns and their subsidiaries or branches; it appears likely, therefore, that against the total of that column there may be set German credits of a like nature abroad, to at least a com-

* *The Economist, Reparations and War Debts Supplement, January 23, 1932.*

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parable amount. These non-banking credits were not covered by the standstill agreement described above, and some part of the subsequent drain of funds from Germany may be ascribed to their liquidation.

The strain placed upon the Reichsbank (which by an emergency decree has been given a monopoly of all foreign exchange transactions) is illustrated by the rough estimate of Germany's balance of payments adopted by the Young Plan Advisory Committee in December.

GERMANY'S BALANCE OF PAYMENTS IN 1931

In Millions of Gold £'s.

Credits	Debits
Export surplus for year, including services and deliveries in kind ..	Reparations up to June 30 40
Utilisation of foreign assets of German banks ..	Interest and normal amortisation on liabilities abroad .. 75
Rediscount and other credits ..	Balance, representing capital withdrawn .. 245
Drawn from gold and deutsches reserve of the Reichsbank ..	60
Total	85
<hr/>	<hr/>
Total	360
	Total
	360

The Reichsbank's reserve, which stood at £131 million at the end of 1930, and even at £126 million at the beginning of June, 1931, had fallen by the end of the year to £57 million, of which £31 million represented the amounts due under the rediscount credits furnished by central banks and by the Bank for International Settlements. The successful effort to maintain the gold standard under these conditions demanded the most severe credit deflation in Germany, with consequent injury to trade and industry. The volume of unemployment at the end of the year was about 54 million out of approximately 21 million employed persons. The maintenance of a large export surplus in spite of low prices and in spite of the adverse effects of exchange control, tariffs and exchange depreciation in

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other countries, likewise imposed a severe strain on German industry. The emergency decrees of the Government have involved heavy sacrifices and stringent economies. The salaries of public servants have been reduced in eighteen months by over 20 per cent., and large increases of taxation have included the raising of the income tax and additional heavy duties on beer and tobacco. Considerable reductions have been made in the scope and scale of unemployment benefits, and contributions have been increased. The Government's programme, now being faithfully carried out, includes a general reduction of prices, wages, rents and interest on long-term obligations. The regimentation of Germany's economic life is thus steadily advancing in scope.

IV. THE FUTURE

ON November 19 the German Government declared, in accordance with the terms of the Young Plan, that Germany's exchange and economic life might be seriously endangered by the transfer in part or in full of the postponable portion of the reparation annuities. In endorsing this declaration, the advisory committee appointed by the Bank for International Settlements pleaded for the adjustment, without delay, of all inter-governmental debts (reparations and other war debts) to the existing troubled situation of the world, as the only lasting step capable of re-establishing confidence.

Meanwhile the banking creditors of Germany had been negotiating a prolongation of the standstill agreement. The new agreement, extending for one year the undertaking to keep short-term credits in Germany except as allowed by the strict provisions regarding withdrawal, was signed on January 24. The schedule of future repayments is to depend on the transfer capacity of the Reichsbank, which in turn will be largely dependent upon the developments

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in the German export situation. Instead of a fixed schedule of repayments at fixed dates, the future determination of what can be repaid has been left to an advisory committee representative of the creditors, who will from time to time consult with the German authorities. The bankers observed, however, that

The credit problem is not solved when reluctant creditors agree to prolong credits out of consideration for the debtor who is embarrassed, and out of consideration for the general economic situation of the world, in which the debtor occupies a vitally important place. The credit problem is solved when creditors confidently and confidently continue credits which they might withdraw at their own convenience. The all-important thing is to restore the basis of credit. It is obvious that a settlement of Germany's international payments, which are now under discussion between the Governments, is a vital element in this problem, as indeed are the inter-allied debts, which are in intimate economic connection with them.

Thus the problem of restoring the German economy to health has once more been handed back by the bankers and the economists to those who alone are capable of providing a permanent solution—the Governments of the world. A mere prolongation of the present condition of suspense is not enough. The re-establishment of confidence is essential if the world is not to drag steadily down to disaster. Germany cannot long maintain her existing régime of severe privation, and even if she could, it is doubtful whether, in the absence of a big improvement of world economic conditions generally, that would be sufficient to prevent her being forced to declare a general moratorium on her foreign obligations and perhaps to subject a much larger proportion of her economic activities to direct government control. It has been estimated that in 1932 her obligation in respect of interest on foreign debts, together with normal amortisation on long-term debts, will amount to £70 million. Interest from German investments abroad may be set off against payments due on foreign "direct" investments in Germany. Thus a surplus of some £70 million on her balance of trade in commodities

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and services is required to meet that first charge alone, without counting reparations or any provision for repayment of short-term foreign debt. In 1931 Germany's export surplus amounted to some £150 million, but it is doubtful whether it can be maintained for long at that level. Much of the exports of 1931 represented the accumulation of stocks by merchants abroad (in anticipation of tariffs or for other reasons) which will not be replenished on the same scale. Imports have already been cut down almost to a minimum. The devaluation of sterling and other currencies, systems of exchange control, and general increase of protective tariffs, including those of Great Britain, further injure the possibility of expanding exports. If the precarious structure now built up were to collapse, what would happen? It is, perhaps, possible to paint too lurid a picture of the financial crisis that would result in the creditor countries, but London and New York and the lesser centres would be forced at best to adopt new and exceptional restrictive measures, which in the case of London at any rate would gravely damage the existing financial structure. In Germany itself, even if inflation and the consequent political upheaval were avoided, the Government would be forced, in face of the growing stagnation of the country's economic life, to encroach still further on the sphere of private enterprise, already so gravely handicapped. The consequences of the virtual overthrow of the private capitalist system in such a highly developed industrial State can only be guessed at. It is obvious, at any rate, that the prospect of extracting reparations from Germany, delusive as it is at present, would entirely vanish. Considerations such as these, modified of course by necessary political factors, should weigh more heavily in the determination of reparations policy than speculations as to what Germany could pay under this or that set of ideal circumstances.

THE UNITED STATES IN THE NEW YEAR

I. THE OLD YEAR

THE year 1931 found no mourners by its bier. The hopes that had stood by its cradle had vanished with the first touch of an unfruitful springtime. The prognosticators and the forecasters, the economists and the statisticians, the bankers and the writers of financial "services" who had cheered the last days of 1930 with the prospect of "recovery in 1931" were long ago put to rout. Just as no one in 1929 had been sufficiently pessimistic about 1930, so no one in 1930 was sufficiently pessimistic about 1931. The question now is, can anybody be sufficiently pessimistic about 1932? Are we in the transition period from one business cycle to another or are we going into a new epoch of civilization altogether? Will future scholars date from 1929 the decline and fall of western civilization—as we now hear on every hand—or will this depression take its place with those of 1837, 1857, 1873 and 1893 as differing rather in degree and outward phenomena than in cause or kind? It must be admitted that there is much—alarmingly much—to support the former view. The profound political reactions of the steady shrinkage in prices and incomes, the complete overthrow of all the equilibria of international trade, the powerful and mysterious changes in currency and exchange, all point to something infinitely larger than the routine expansions and contractions of the business cycle. If we

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are being hustled helplessly to a new world what are to be its features and its landmarks? Where will its highways lead? No country ever faced a new year with more hopes and more misgivings than the United States at the dawn of 1932. So vital are the economic questions of the hour that even the identity of our next President becomes of very minor importance. He is significant only as a still unknown force in solving the depression.

And whatever may be the ultimate historical significance of the period through which we are passing, it certainly marks a change in all our moods and habits as striking and as sweeping as that produced by the war. Even those who have suffered no crushing material losses have felt the weight of the depression upon their spirits. Much of the reckless gaiety of the 'twenties has vanished with the paper profits. It may be that we are entering upon a sedater age, more cautious in its pleasures as in its investments. Perhaps Victorianism is due for a revival. There are already symptoms of it in the shops. Moralists in abundance preach to us on the sins of materialism and would have us believe that the depression is a "blessing in disguise." They recall to memory those spiritually minded men and women who saw in the war a great uplifting and purifying influence in a world too devoted to self and self. But to the rest of us a man dying on the battlefield in war, or from malnutrition in peace, attests so completely man's incapacity to deal with his environment that any talk of purification or blessings is the purest humbug.

Meantime the business writers and statisticians go on with their charts plotting the graphs of stock prices, bond prices, and commodity prices, inventing thermometers of business activity, recording car loadings, electric power consumption in kilowatt hours, and goodness knows what. It is astonishing to the layman to observe how carefully are kept the hospital charts of that great invalid, American business. And it must be admitted that the parallels between this and earlier depressions, in security and commo-

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dity movements, are so striking as to make one believe that it is easily possible to exaggerate the difference between this and the classic depressions of the last century.

If it is not too morbid let us look backward and see just what did happen to us in 1931. It was a year as spectacular as it was disastrous. The average prices of industrial stocks, which seemed incredibly low on January 1, rallied for a brief two months, but closed the year at a trifle less than half of what they were at its beginning. Railroad stocks fared materially worse—indeed, current quotations would suggest that the future of the railroads was in the past. Bonds, which are accounted the most conservative investments, still held on July 11 at an average price of approximately 92·70, but closed the year at 73·36, recording an unparalleled collapse. Commodities, which averaged on the Fisher index 77·7 for January, sank in December to 66·7, a drop of eleven points for the year and of 33½ per cent. from the base of 100 in 1926. Activity of steel mills, which never went above 57 per cent. in 1931, closed the year below 25 per cent. Automobile plants turned out two million cars as against nearly three million in 1930 and almost five million in 1929. It would be easy to multiply these statistics. The financial papers overflow with indices, each more discouraging than the last. But one needs no financial papers to sense what is happening. Unemployment in all classes of society, the impoverishment of those accounted rich or moderately rich, retrenchment in almost every family circle, and the sombre series of suicides, bring the depression home to everyone. At the dawn of the new year, it bestrides us inexorably.

Can one find anything reassuring to say about the *annus mirabilis* that is past? Undoubtedly yes, but the appraisal of the factors is as yet difficult. What is most important is that the united strength and intelligence of the nation are now arrayed, as never before, against the forces of economic destruction. There is no longer any evading the facts. We are faced with a major crisis as grave as the war and

New Year Remedies

in some ways more difficult, for there is no conventional technique for this new type of conflict. The Administration, the banks, business houses, industrial leaders, householders, even the labor unions, have banished all comfortable thinking and are trying to meet the emergency. Their failure—in some degree—seems assured; their success—ultimately and in essentials—is certainly not to be despised of. We shall win the depression as someone said the war was won—"from the bottom up"—from the labor and sacrifice of the millions.

Reassuring signs appeared in the final quarter of 1931 in the shape of a rise in the price of silver and in sharply increased prices for wheat and other agricultural products. These price flurries have largely subsided, but they afford hope. The flicker of an eyelash may not be much, but it is always a good sign in a corpse.

II. NEW YEAR REMEDIES

AS for 1932, utterances are cautious. The people who predicted "recovery" in 1931 are making no such mistake to-day. Practically no responsible people are saying that another twelve months will get us out of the wood. Rather the feeling is that another twelve months will give us a clearer idea of bearings and direction in the wood, a knowledge of the trees, and a better capacity for woodcraft. Commodity prices are holding steadier, and the brief improvements of the autumn might return for a longer sojourn. Public attention is being focussed on the vital problem of our railroads. The powerfully organized and strongly entrenched railroad labor unions have stubbornly and thus far successfully opposed the wage cuts which are indispensable if the roads are to survive. But their opposition is generally believed to be weakening. The Interstate Commerce Commission and the public are coming to realize that the railroads have not been allowed to do well

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enough in good times to permit of their surviving unassisted in bad times. No less a tribunal than the United States Supreme Court has twice taken judicial notice of the depression, by recognizing that a rate decision of 1928 is not applicable to present conditions, and by setting limits to the powers of the Interstate Commerce Commission to dissipate operating revenues in rate-making experiments. In another decision it has set aside the attempt of a local government to compel the working by a railroad of an unprofitable line. Legislative recognition will slowly be accorded to the competition of other agencies of transportation so that trucks, waterways, airways and pipelines will ultimately come in for a certain amount of regulation and taxation, from both of which they are now relatively (though by no means wholly) immune.

On January 4, President Hoover delivered to Congress a message advocating eight measures to combat the depression, namely, the strengthening of the Federal Land Bank system, the creation of a reconstruction finance corporation to furnish credits otherwise unobtainable, the creation of a system of home loan discount banks, an enlargement of the discount privileges of the Federal Reserve Banks, the development of a plan to advance money to the depositors of closed banks, the revision of laws affecting railways, the revision of the national banking laws, and drastic economy in federal expenditures.

The project of the Reconstruction Finance Corporation has been realized with a celerity which attests the capacity of Congress to act promptly when the national welfare seems to be at stake. The new Bill creates a corporation with half a billion dollars of stock subscribed by the United States Government. It has the power to issue a billion and a half dollars in bonds or other obligations unconditionally guaranteed both as to principal and interest by the United States. Its policies will be dictated by three federal officials, the Secretary of the Treasury, the Governor of the Federal Reserve Board and the Farm

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Loan Commissioner, and four private citizens of whom General Dawes is already named. The corporation will make advances "fully and adequately secured" to banks and other fiduciary institutions in need of help. "Upon the approval of the Interstate Commerce Commission," the Corporation is empowered "to make loans to aid in the temporary financing of railroads." It may also accept drafts and bills of exchange arising from the actual export of commodities (except war material) already shipped. The provisions of the statute follow almost precisely those of the War Finance Corporation created in April, 1918, which was organized to assist in the conduct of the war but actually rendered its most valuable service in the depression of 1921-22 in enabling banks with slow assets to "carry" the existing loans of their farmer customers. The War Finance Corporation had a powerful effect in 1922. Public knowledge of its powers and resources restored confidence even before its funds were made available. And that, of course, is what is hoped now—to prevent the terrorized liquidation of everything, a liquidation which in the last few months has undermined public confidence and created its own causes. No circle in the last year but has been vicious.

III. REPARATIONS AND WAR DEBTS

SITTING with the new year before one, one goes back over the memories and phrases of the years gone by. What a nasty ironic shrew the muse Clio has become! How she has flung back in our teeth the lovely phrases of yesteryear. The "war to end war" might better have been christened a "war to perpetuate war." The world that was to be safe for democracy is so perilous and insecure that it is safe for no political system. "We shall soon," said Mr. Hoover, in accepting the Republican nomination on August 11, 1928, ". . . be in sight of the

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day when poverty will be banished from this nation." Mr. Hoover will have to write some new campaign speeches in 1932. The old ones will not do.

Some of the derided phrases read better now. There was the man who was shouted down for advocating Peace without Victory. But it was an old man who kept saying "*Je fais la guerre*" who carried that still vivid day, and "*Je fais la guerre*" still rings in our ears, the curse of the embittered dead upon the generation of their survivors. One wonders if man can ever attain the moral stature to conduct his own affairs. The issues of fate seem somehow more sharply drawn; the tragedy of our generation is to-day more stark, and more embittering. What of those thirty million young men who were killed or maimed? Where are the results worthy of their sacrifice or of the great and high emotions with which they made it? Surely if ever bankruptcy and failure were written across the page of history it is now. As in the 'sixties, we have resolved that those men ought not to have died in vain. But who can assure us that they have not?

It is to such melancholy reflections as these that one leaves the charts of securities and car loadings. And it is to such melancholy reflections as these that thoughtful Congressmen must have turned in the debate on the moratorium. The reparation question is a simple one. There is Germany condemned by the jury verdict of Versailles to pay an unsettled sum in damages when everyone agrees she can at present pay very little. Never mind how good the jury was or how just the verdict. The Young plan supplemented the jury verdict by fixing a schedule of annuities to extend to the year 1988 and to aggregate over twenty-seven billion dollars. We are now pretty well persuaded that a plan calling for huge payments extended over two entire generations is only a scrap of paper. The Hitlers will fight and the Hitlers will be, if not right, successful. Or more likely they won't fight but will merely talk. One need not go east of Suez for

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passive resistance. If Americans will not give up their liquor because their own constitution tells them to, why should Germans give up their money because somebody else's treaty tells them to? It is the same thing. In the long run public opinion governs a nation. All we can do about that is to have a new war. Everyone recognizes that that solution is no solution at all. Even France with her heritage of fear sees that.

Americans would, therefore, cancel or at any rate greatly alleviate the reparations burden. There is also the excellent though selfish argument that payment of reparations will imperil or prevent the repayment to American citizens of some three and a half billions of dollars loaned by them to German States, municipalities and industries. Of the total indebtedness of Germany on private long-term obligations, 57 per cent. is said to be held in this country. It is natural, therefore, that our citizens should feel more concerned about this aspect of German indebtedness than about German reparations in which, directly at least, they have no interest.

As opposed to the German reparations there is the twelve billions of dollars in round figures owed to us by European countries, which accounts for roughly two thirds of our national debt. This obligation is contractual—funded, not assessed by any jury good or bad. Nor was it all directly a contribution to the prosecution of the war. Much of it represents post-war loans to European countries, but undoubtedly it helped to pay the piper for the costly tune to which we danced for more than four years. If we forego that debt a large part of the bill for the war is handed on to us. The European countries could pay ultimately even if a moratorium were essential now. Reparations or no reparations, why, we are asked, should they repudiate or we forego?

The United States Government (wrote Woodrow Wilson in 1920) fails to perceive the logic in a suggestion in effect either that the

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United States shall pay part of Germany's reparation obligations or that it shall make a gratuity to the Allied Governments to induce them to fix such obligation at an amount within Germany's capacity to pay. This Government has endeavoured heretofore in a most friendly spirit to make it clear that it cannot consent to connect the reparation question with that of inter-governmental indebtedness. . . . The United States Government recognizes the importance, in the interests of peace and prosperity, of securing the restoration of financial and industrial stability throughout Europe. The war debts of the Allied Governments, the treaty obligations of Germany under the reparation clauses . . . have or may have an important bearing in making plans to accomplish such restoration.

Here, at least, is a declaration that has not lost its significance with time. In fact, it can stand as the classic statement of the case against any cancellation of the war debts. The new Congress ratified Mr. Hoover's moratorium agreement with the proviso that :—

It is hereby expressly declared to be against the policy of Congress that any of the indebtedness of foreign countries to the United States should be in any manner cancelled or reduced, and nothing in this joint resolution shall be construed as indicating a contrary policy, or as implying that favorable consideration will be given at any time to a change in the policy hereby declared.

On the other hand, it is probably safe to say that the cause of out-and-out cancellation would have more advocates in the United States to-day than ever before. Twelve billion dollars is a tidy sum. But the shrinkage in listed stocks in 1931 came to very nearly that ; the shrinkage in stocks, bonds, and commodities far exceeded it. In the prosperous years that followed the war we reduced our national debt by some ten billions of dollars, suffered no great hardship, and progressively reduced federal taxation. If we could start the motors of the world by assuming the debt it would be worth while. To cut short the depression by a single month would be worth the sacrifice. And it is generally agreed that the war debt and reparation problem is now the millstone about the neck of international trade. It is what causes the maldistribution of the gold supply.

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It cripples Europe's capacity to buy American goods. The fierce flame of hope that leapt up last June when the moratorium was first proposed illustrates the immense power of the psychological influences which might be unleashed by any relaxation of international obligations. Moreover, advocates of cancellation point out that the debt settlements as negotiated are unfair on the basis of present economic conditions. For instance, England under the Baldwin agreement experiences a debt concession of only 19·7 per cent. as against a concession of 75·4 per cent. to Italy. And, of course, all payments are automatically increased in terms of commodities by the collapse of commodity prices. Annual payments on the war debt amount to less than one eighth of the present expenditures of the Federal Government and less than one seventeenth of the value of our foreign trade in a hypothetically "normal" year.

No doubt a powerful factor in the ultimate decision will be Congressional pride, which is always forcing the inquiry, unparliamentary but searching, "Why must we be 'suckers?' Why must Uncle Sam always pay?" And no less influential will be the consideration of international armament. For if money remitted from the debts owed to us goes to pay for armaments which will simply serve to perpetuate the impossible system that brought us to this chaos, then our only course must be to insist upon the utmost farthing—the last centesimo. Figures published in this country indicate that last year France, Czechoslovakia, Italy, Poland, Rumania and Jugoslavia each spent more than ten dollars on armaments for every dollar paid to the United States. The allies together are spending annually for armaments seven times as much as their present annual payments to the United States of less than two hundred and fifty million dollars. Statistics of this sort tend to dry the tears of sympathy which might otherwise flow for our unhappy debtors. But if money concessions on our part can influence political and budget

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concessions in Europe, looking to some better ordered and more stable condition in Europe, then there is an argument with a powerful popular appeal. Perhaps the wisest estimate of present American public opinion comes from a capable diagnostician of American and foreign sentiment, Mrs. Anne O'Hare McCormick. She has recently said that Main Street's mood

is one of trouble and dark uncertainty rather than of bitterness, but in its panic it is easily swayed by any argument. Its first instinct is to turn out anybody in office in favor of almost any outsider. It yearns above all for action, audacity, which explains the enormous popularity throughout the west of direct tactics like those of Governor Bill Murray of Oklahoma. At this moment, though there is a distinct hardening of heart toward Europe, a general stiffening of nationalistic sentiment, it would be easy to persuade America either to cancel all the war debts or to insist on the last farthing. We want nothing so much as to be told with enough assurance which way to turn.

The last three years have indeed illustrated the almost uncanny suggestibility of the American people. Somehow or other it seems certain we are going to get on with this debt and reparation problem in 1932. We must get on with it; and facing it is bound to mean progress in our troubles.

IV. THE BUDGET PROBLEM

ASIDE from legislation, good and bad, designed to alleviate the miseries of the depression and to start the nation on an upward course, and aside from the problems arising from our comparatively untried status as a creditor nation, the major question in Washington is a fiscal one. We closed the fiscal year ending June 30, 1931, with a deficit of \$902 million, which included \$440 million for statutory debt retirement, or a net increase in the debt of \$462 million, plus additional cash in the treasury of \$153 million, or a total debt increase of \$615 million. For the fiscal year ending June 30, 1932, the Treasury estimates a probable net

The Budget Problem

debt increase of \$1,711 million. The importance of the decision thus forced upon Congress is hard to overestimate. After years of preaching on the sin of the unbalanced budget, the time has come to put our precepts into practice. It is obvious that the first necessity is for retrenchment in all fields of governmental activity. But it is equally obvious that no retrenchment now practicable can cure the situation. And so Congress must decide whether to borrow the amount of the anticipated deficit or to increase taxes or to combine the two in a workable, if not a popular, program.

Fortunately the Treasury Department and the Administration, though facing a popular election within the year, are addressing themselves to the situation courageously. Mr. Mellon said to the House Committee on Ways and Means :—

A fundamental thought which I wish to present to you is that current receipts and expenditures of the Government should be brought into balance for the next fiscal year beginning with the coming July, so as to put an end at that time to any further increase in the public debt. This is essential, not merely for maintaining unimpaired the credit of the Government, but also for reinvigorating the entire credit structure of the country. The Administration is determined, with your cooperation, to arrest this borrowing process on June 30 next.

Mr. Mellon has outlined to Congress a two-year emergency program whereby the Treasury hopes to raise \$920,000,000, or enough to balance the books in the fiscal year ending June 30, 1933, and \$390,000,000 additional during the current fiscal year. He recommends that the per cent. rates of 1½, 3 and 5 per cent. on incomes of \$10,000 or less should be raised to 2, 4 and 6 per cent. respectively, with surtax rates at 1 per cent. on incomes over \$10,000, running up to 40 per cent. on incomes (if any) of half a million. He further recommends increased rates on tobacco, a slight increase in corporation tax levies, taxes on automobiles, radios, cheques and drafts, telephones, telegraph and cable messages, and an increase in estate taxes.

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Business sentiment in the country is impressed with the moral and exemplary value of governmental economy and a balanced budget.

Could you have a more depressing psychological effect (asked under-Secretary Mills) than the promise of the United States Government, backed by the total resources of the people of the United States, depreciating 18 points in ninety days? Why? Because of the fear that instead of meeting our needs through legitimate, sound means, afforded by taxation, we propose to attempt to issue billions of dollars of securities to the public.

. . . The courageous thing to do and the right thing to do is for the Government of the United States to stop borrowing and balance its budget and live within its income; and nothing . . . will have a greater effect right now than just that action on our part, because you must not forget that while there have been very many economic forces that have tended to produce the present depreciation in prices and values, in the latter phases of this depression period the psychology of fear and the loss of confidence have played even a greater part than the economic factors.

The Administration is also resisting the temptation to increase revenues from the pockets of the "rich," and Mr. Mellon told the Ways and Means Committee that "many not now taxed (under the existing federal income tax law) are very definitely in a position to make some contribution to the support of government."

It should perhaps be noted that one reason for the drastic decline in public revenue is the predominant part played by the income tax in our fiscal system. This tax produced for the calendar year 1928 \$1,164,000,000 and for the calendar year 1930 \$474,000,000. It is thought that individual taxes on 1931 incomes will not exceed \$300,000,000. That taxes decline more rapidly than incomes is due partly to the graduated tax scales and partly to the provision of the tax law which makes capital net gains taxable as income and capital net losses deductible from income. As everyone who has any capital at all has suffered losses which he may realize if he likes without necessarily incurring actual loss, e.g., by selling one

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depressed security and buying another, the payment of taxes has been reduced for many people to nothing but a voluntary contribution to the support of government, a manifestation of public spirit to which few citizens in any country are as yet educated.

Just what tax Bill will ultimately pass it is too early to say. Control of the national House of Representatives is with the Democrats, and Republican control of the Senate is largely theoretical, so that perfect harmony is scarcely to be expected. Europeans will remember the precedent of Woodrow Wilson and a Republican Congress. Nevertheless, the Democrats have shown a disposition to realize that cooperation in measures to rout the depression will gain them more voters next November than long harangues about the sins of the Administration and the petty manœuvres of party obstruction. This is well for the country, and the distrust of Congress which was a byword no more than a year ago has largely subsided and been replaced by a belief that Congress can and will "do something" to better conditions. That it can do immense harm by cheap and easy remedies no one denies. But the virtue of a balanced budget and sound legislation for the banks and railroads is no less obvious.

Meantime those who bear the brunt and burden of the depression are unbelievably calm and patient. There has been a notable lack of tumult and civil disorder, a notable absence of men crying out against capitalism or democracy or our established institutions. Rather we find a faith that this is an hour of national crisis to be met and overcome by work and fortitude and voluntary relief to the unemployed. On the vindication of that faith by the future depends not merely the economic, but the political, future of America.

United States of America.

January 26, 1932.

INDIA: THE STRUGGLE WITH CONGRESS

I. INDIA AND THE ROUND TABLE CONFERENCE

SINCE the publication of our last article from India* events have moved with startling and dramatic rapidity. The cloud of depression and uncertainty then hanging over the country has, to some extent, lifted in spite of the recent incidents and ordinances. In the constitutional sphere the signs are more favourable than seemed possible during the summer and autumn, and in the political field there is a straight fight on a clear issue between Congress and the Government. The gloves are off. Whether or not any substantial progress was made by the Round Table Conference in elaborating the mechanism of the future constitution, and in spite of its failure to secure an agreed settlement of the communal problem, every impartial observer recognises that a marked advance has been made. The air has cleared. The Prime Minister's statement, and the emphatic approval by both Houses of Parliament of the policy embodied in the White Paper, have left no room for doubt in the minds of reasonable people as to the determination and intentions of Great Britain. The consequent diminution of the feeling of pessimism and distrust which animated many Indian statesmen, even of the more moderate school, is a factor of great psychological importance. And, whatever the nationalist press may write about the inadequacy of the Prime Minister's statement, the opinion is gaining ground that some really solid

* See *THE ROUND TABLE*, No. 85, December 1931, p. 100.

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and lasting work has been done. The Round Table delegates have now returned to India, and their pronouncements (except, of course, Mr. Gandhi's) on the subject are marked, on the whole, by a robust, if cautious, optimism and a firm belief in the value of continued co-operation. There are signs that confidence in the good faith of Great Britain is returning, and prophecy is indulged in as to the date of the establishment of the new constitution. The fact that the Round Table Conference will remain in being in India in the form of a "consultative" committee, under the chairmanship of the Governor-General, as deputy to the Prime Minister, and the appointment of the Franchise, Federal Finance and Indian States Inquiry Committees, which are now engaged on their labours, provides a clear and convincing proof of the Government's determination not to mark time, but to carry out their programme with the greatest speed compatible with care, undeterred by the many forces of disruption still actively at work, and of their willingness to seek by the method of conference and discussion a solution of the problems still outstanding. The ready acceptance by Indian public men of invitations to serve on these committees is an encouraging sign of the belief of non-Congress opinion in the greater value of co-operation as compared with the barren campaign of civil disobedience. If any further proof of Great Britain's purpose were needed, the speech of the Viceroy to the Assembly on January 25 gives it in full.

The tactics of Congress have not been unexpected, as the extremists for some time have had the upper hand. They were scheming during Mr. Gandhi's absence in London to force the issue and to leave him on his return no alternative but to declare for a resumption of civil disobedience. Mr. Gandhi's own position made this easier. His behaviour at the Round Table Conference revealed his lack of constructive statesmanship, and his indifference to practical issues. It showed that he could not speak for

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India as a whole, that his claim to dictate terms on behalf of the Congress to other sections of the body politic was contested and resented by Mahomedans, by the depressed classes and by many Hindus themselves, and, finally, his failure to "cut any ice" at the Conference greatly lowered his prestige. If he had any inclination to make a spectacular gesture which would bring him back into the limelight, it would certainly have been strengthened by this failure in London. Many observers felt convinced that he would resume the civil disobedience movement after a half-hearted attempt at artificial negotiation, and it is easy to understand how circumstances drove him to forsake the path of co-operation. By precipitating action in the North West Frontier Province and the United Provinces, his lieutenants had left him little choice, even if his personal inclination did not point in the same direction. These lieutenants, whether Abdul Ghaffar Khan on the Frontier or Pandit Jawahar Lal Nehru in the United Provinces, had made no secret of the fact that they hoped to secure through the civil disobedience movement the complete independence of their country. They anticipated that Mr. Gandhi would keep the Government of India in play, by negotiations with the Viceroy, while they completed their preparations for the "war." At the convenient moment Mr. Gandhi would announce the cessation of the negotiations, and the carefully matured plans for civil disobedience, which were intended to take full advantage of the serious financial difficulties of the country, would then be put into operation. The Congress leaders were out in their calculations. The Government of India took immediate action. Their firm and vigorous measures caused surprise and consternation in the Congress camp and robbed the leaders of the interval for further preparation which they had expected. The Congress working committees are now unlawful bodies, many of the leaders are in jail. The issues are clear-cut. On the one hand, in the constitutional sphere a march along the road

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self-government, on the principles adopted by His Majesty's Government, is now in progress—over very difficult and tricky country in some parts of the journey—and, on the other, in the political sphere there is the Government's determination to crush what is in effect an unarmed rebellion for the purpose of winning independence.

II. THE RED SHIRT MOVEMENT

WE must now describe the main events which led to this dramatic *dénouement* and set forth, as far as possible, the reactions in India as a whole to the policy of the Government in determining to fight the Congress and simultaneously to proceed with reforms. The months of November and December were a very critical period in the history of India. Government was beset with difficulties. The Congress leaders, in spite of the Delhi Pact, were making preparations for the resumption of the "struggle"—establishing "war" councils, encouraging everywhere the growth of "war mentality" and implanting in the minds of impressionable schoolboys "the glory of the fight for freedom." The falling prices of food grains offered a favourable opportunity for stirring up the peasantry—especially in Pandit Jawahar Lal's own province, the United Provinces. The Red Shirt movement on the Frontier was clearly subversive and opposed to the Irwin-Gandhi settlement, but the Congress deliberately encouraged Abdul Ghaffar Khan, its irreconcilable leader, in his pretensions. The position was thus one of extreme delicacy in which a false move on the part of the Government might have been disastrous. Mahomedan feeling in the Frontier Province and in the Punjab was uncertain, shaken as it was by events in Kashmir. On the Frontier the Red Shirt organisation was making rapid headway, and was openly inspired by revolutionary objects. It was realised that action could not long be delayed against

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Abdul Ghaffar Khan, the leader, who claimed to be the *de facto* head of the province. Premature action, however, might have precipitated a conflagration among the Mahomedans of the province and in the tribal areas. The Mahomedans of the Punjab and the United Provinces might easily have extended more than a silent sympathy. Serious trouble in northern India would have presented a golden opportunity to the Congress leaders elsewhere ; under their instigation a peasant revolt in the United Provinces, which might have spread to other provinces, would have been on the cards, while in Bengal the revolutionary party, regarding themselves as the " storm troops " of the " nationalist army," would have been inspired to more dastardly deeds of terrorism. The moderate politicians, especially the Hindus, disliked the Bengal Ordinances and gave little support to Government on the plea that the price of their co-operation was the abandonment of measures of " repression." Mahomedans generally were apprehensive of constitutional developments which might run counter to their hopes and claims, and would not wholeheartedly co-operate with Government until those doubts were set at rest. In a situation of such bewildering complexity, Lord Willingdon and his Government acted with firmness and courage. They have now regained the initiative and are proceeding undismayed with the great constitutional task before them.

The events in the North West Frontier Province, the United Provinces and Bengal play such a prominent part in the later developments that a fuller account of them is necessary for a proper understanding of the sequence of events.

To take the North West Frontier Province first, in many ways it has been, as it were, the keystone of the political arch. Congress intransigence went further here than elsewhere and open defiance of authority had reached a highly dangerous pitch. It is still, to a large extent, the touchstone of Mahomedan feeling. In his conciliatory administration,

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which it was hoped would win general support in the province for the coming constitutional reforms, the Chief Commissioner was persistently thwarted by Abdul Ghaffar Khan and his adherents, who for the greater part of last year had been making intensive preparations for the renewal of their struggle for complete independence. For ten months, in spite of grave provocation, the Government of the province restricted its action against this movement to measures under the ordinary law. It was hoped that the eventual establishment of a reformed constitution would consolidate public opinion and bring about peaceful conditions. This hope was not realised. The publication of the report of the Subjects Committee in June last made no impression, and indeed a spirit of contempt for law and order was spreading, leading to open defiance of authority and violence to government officers. It was hoped that Mr. Gandhi's participation in the Round Table Conference would mend matters. But again hopes were disappointed. Abdul Ghaffar Khan had been made leader of the Congress movement on the Frontier, and after a tour throughout the province he returned to Peshawar, as a virtual dictator, to reorganise the Youth League as an integral part of the All-India Congress organisation, under the name of the Frontier Provincial Jirga. He urged his audiences to disobey orders passed by Government, delivering inflammatory anti-British speeches. He declared in November that the aim and object of his organisation was "to liberate the country from the foreign yoke. The country was theirs, while the English were enjoying themselves."

At a later meeting, after the Prime Minister's announcement, he declared, "We have two purposes : firstly, to free our country ; and secondly, to feed the hungry and clothe the naked. Do not rest until freedom is won. It does not matter if you are blown up with guns, bombs, etc. If you are brave, come out into the battlefield and fight the English, who are the cause of all our

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trembles. Congress is a society against the English. The English are the common enemies of the Congress and of the Pathans." During the month of December his following of Red Shirts held large camps in the Peshawar district, at which parades and manœuvres in military formation were carried out. The campaign for the non-payment of revenue and water-rates and for the refusal to take government canal water was steadily pursued. In one part of the Peshawar district a Red Shirt tahsil (revenue office) was opened and collections were made from the zemindars (landowners). Attempts were made to extend the Congress-Red Shirt movement across the administrative border into the Malakand Agency. Meetings were held in deliberate defiance of the Political Agent's order, and, in spite of a strong protest by the local maliks themselves, inflammatory pamphlets were distributed in the Swat territory to stir up disaffection against the Wali of Swat. There was reason to suppose that the Mohmand tribal territory was also penetrated by Congress emissaries. In spite of every effort at conciliation by the Government of the province, Abdul Ghaffar Khan remained obdurate and used the Prime Minister's declaration of December 1 as an occasion for even more open defiance. Resolutions were passed on December 20 at a meeting of the Provincial Congress Committee repudiating that declaration and resolving that nothing short of complete independence would be acceptable. Congress was called upon to abandon the Irwin-Gandhi truce and to proclaim the renewal of civil disobedience. The first week of January was to see the inauguration of a fresh phase of Red Shirt activity, which would be signalled by the ceremony of unfurling the Congress flag at Utmanzai at a New Year's Day parade, and preparations were in train for an impressive demonstration of Red Shirt strength and preparedness.

In the face of these resolutions Government could no longer stay its hand or follow a policy of conciliation. The Chief Commissioner held a Durbar on December 22,

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announcing the measures taken by the Government of India and the local government to introduce the new constitution at the earliest possible moment, an announcement which made a deep impression upon the more reasonable people of the province. Immediately after the Durbar, Abdul Ghaffar Khan was arrested and an ordinance promulgated to give the authorities the requisite special powers for dealing with the emergency that had now arisen. Numerous clashes occurred with bands of Red Shirts, but the policy of firmness proved successful, and soon a decided improvement took place. Red Shirts began to apologise and to burn or dye their uniforms. Revenue is once more coming in, and the intelligentsia are concentrating on the early establishment of a reformed constitution on the lines of a governor's province. This may become an accomplished fact by the spring of this year. Details are now being worked out with the utmost despatch by the non-official committees, the Chief Commissioner and the Government of India, and canvassing for election is already in progress.

III. THE NO-RENT CAMPAIGN

IN the United Provinces the Congress leaders planned "to consolidate the position of the Congress, to strengthen their organisation and to prepare the people for any contingency that might arise," and especially to concentrate on the rural areas. The Delhi Agreement was concluded on March 5, 1931; nevertheless, within a very short time Congress gave clear proof that they did not intend to abandon the no-rent campaign which they had vigorously preached in parts of the province during the civil disobedience movement of 1930. The general fall in prices had made the payment of rents a matter of serious and increasing difficulty for tenants, and the situation was, therefore, open to skilful exploitation by the Congress.

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It should be explained that in the United Provinces about 95 per cent. of the rents are on a cash basis. Rentals are fixed by agreement between the landlord and the tenant, and are not determined by government agency. In the past the efforts of the State have lain in the direction of securing and safeguarding equitable terms of tenure for cultivators, rather than of attempting to settle the actual rents. The State may remit revenue, and the law provides that when, owing to any calamity, the State remits revenue, the revenue payer, i.e., the landlord, should make a proportionate reduction in the rents paid by his tenants. The Government accordingly decided to announce, after careful enquiry, a remission of land-revenue which would result in the reduction of rentals to about the level of 1915, involving a reduction of 207 lakhs* of rupees in the total of rents in the province. The Congress agents, however, went on steadily inflaming the tenants, and a state of affairs was brought about which not only threatened general disorder, but contained a serious menace to the maintenance of the Delhi settlement. The ordinary processes issued by the revenue courts were executed with the greatest difficulty, and attempts to do so were frequently accompanied by rioting. Crops attached under judicial decrees were forcibly removed ; there were many cases of intimidation by violence or social boycott. In some cases landowners themselves or their agents were murdered, and police were attacked when investigating crime. Abundant evidence was forthcoming of the growing spirit of lawlessness in many districts, largely because Congress volunteers were working in the villages, spreading contempt for authority and sowing dissension between landlords and tenants. Mr. Gandhi visited the Governor of the province and issued a manifesto, some of which was unexceptionable, but which contained the assumption that Congress was an authority competent to decide what rents should or should not be paid, to adjudicate disputes between landlords and tenants,

* A lakh is £7,500.

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and to receive complaints against the former lodged by the latter.

This manifesto naturally complicated the situation. Riots and lawlessness continued, and Pandit Jawahar Lal Nehru made it clear that his objective included the total expropriation of landlords, and held out to tenants the prospect that, with the victory of Congress, they would become full proprietors of the lands they cultivated. The Congress volunteers deliberately encouraged a form of class warfare against their landlords, accusing the latter of perpetrating acts of brutal savagery upon their tenants to force the payment of rents. The plight of the tenants during the year 1931, owing to the fall in prices and other economic causes, was serious. The Government, realising that further relief was required, appointed another committee and invited a Congress leader to serve on it, but he declined the invitation. This committee proposed remissions of revenue which involved a total reduction of rents by about 410 lakhs of rupees. On the flimsiest grounds the Congress considered them wholly inadequate, and decided, after some discussion, that a no-rent campaign should be started in the Allahabad district. Later on, after some brief negotiations, during which the Congress put forward impossible claims, which no Government could accept, the Provincial Congress Committee, at a meeting held at Lucknow on December 5, passed a resolution definitely authorising the local committees of Cawnpore, Unao, Rae Bareli and Etawah to commence a no-rent campaign. The possible extension of such a campaign to other districts rendered further action on the lines already pursued out of the question. The dangers of such a campaign had been made abundantly clear, with its possibility of leading to murder and class warfare, and again Government could stay its hand no longer. An ordinance was promulgated empowering the local government and their officers to deal adequately with the no-rent campaign. Pandit Jawahar Lal Nehru and other leaders were convicted

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for defiance of orders served upon them and sent to prison. The situation immediately improved and rents began to come in. The provisions of the ordinance have in fact been very sparingly used owing to a restoration of confidence in Government's power to exercise authority, and a very satisfactory comment was the substantial endorsement by the United Provinces Legislative Council of the Government's policy and of the need for the ordinance. A slight increase in prices materially helped.

IV. TERRORISM IN BENGAL

IN Bengal the difficulty was not attributable to the measures adopted by Congress : the Congress party there was torn by internal dissensions, and in spite of the Barhampur resolutions and a determination, if necessary, to act independently of the National Congress (though the province was admittedly unprepared for civil disobedience) was not making much headway. It was the recrudescence of the terrorist movement that gave cause for much serious anxiety. A recapitulation of the many outrages committed, culminating in the murder of Mr. Stevens by two young girls, is unnecessary here, as these events will be fresh in the minds of readers of THE ROUND TABLE. The consequences were disturbing. In parts of the province, e.g., Chittagong and Dacca, the authority of Government was seriously impaired. The revolutionary party was rapidly growing in strength and numbers : it was well organised and made a strong appeal to the sentimental young Bengali of the middle classes. Many of the known revolutionaries had been detained in detention camps under the Bengal Criminal Law Amendment Act, but this was of little help in itself—discipline was lax and the camps served as a sort of headquarters. Communication with confederates was easy. The movement thrived, and in some districts the countryside was desperately afraid. The inadequacy of the counter-

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measures taken by the local government was the subject of bitter attack by the European Association and by a new organisation known as the Royalists. Stern action was demanded, and among non-official Europeans there was constant talk of reprisals. The prestige of the Government was low. Strong measures could not be delayed. The European community rightly demanded the restoration of conditions in which they could carry on their daily business without the fear of assassination. The Chittagong bravoes had to be rounded up and respect for authority restored. The Bengal Ordinances were promulgated at last and many suspects were arrested. Some improvement has taken place and the presence of troops in Chittagong has had a good moral effect. But terrorism still goes on, and very careful measures of protection have to be taken. Every spectacular success which the revolutionary party achieves encourages them and inspires confidence in the ingenuity of their plans to murder Englishmen or any persons who give information or evidence against them. They are completely irreconcilable and will not abandon the cult of the bomb and the revolver with the advent of self-government.

It is indeed one of the most unsatisfactory features of the Bengal situation that fear of the terrorist movement is so widespread. Only on this supposition can one explain the attitude of Congress and the nationalist politicians generally. They fear that when provincial autonomy is attained the revolutionary party will demand a large share of the plums, and so the leaders, while rebuking methods of violence, laud the self-sacrificing spirit of the murderers and cause them to be acclaimed as saints. They compare the murders of innocent people with the issue of an ordinance by Government as alike instances of terrorism, while so sensitive and so squeamish are the Liberal politicians as a class that they profess a detestation of government by ordinance, and pretend that the terrorist movement would subside of itself with the grant of full responsible govern-

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ment in the provinces and at the centre. Unless the good sense of the people of India contrives to extirpate terrorism from Bengal, neither a federation of provinces and States, nor dominion status, nor complete independence will bring peace to that unhappy province.

Thus in each of these provinces certain common features were present—a growing spirit of lawlessness and defiance of authority, leading to disturbance, murders, insecurity, and attempts to set up parallel institutions and to exercise an authority equal to that of the established Government. Any Government which did not take vigorous action in face of such a situation would have failed in its first duty, which is to govern. The question was not one of stifling a legitimate political movement, but of preventing disorder and chaos.

V. MR. GANDHI'S RETURN

SUCH was the general position of affairs at the end of December when Mr. Gandhi was due to arrive. The stage was carefully set, and perhaps the leaders felt little doubt as to the turn of events. The acting president, Mr. Vallabhai Patel, had declared that the coming struggle would be India's last struggle, but that he would leave the final decision to his leader, Mr. Gandhi. Mr. Gandhi himself during the voyage said that he would not take a "hasty step," but his first utterances ashore indicated more than a willingness to do so. At a public meeting he declared that he had hoped that it might be possible for him to find a way to co-operate with Government, but the signs he had noticed had considerably weakened these hopes. "If the fight becomes inevitable, I invite you to be ready, but I will not give up all attempts to save the nation from a fiery ordeal and would not be afraid to undergo any amount of suffering or flinch from sacrificing a million lives." The Congress Working Committee urged upon him that

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the present policy of the Government in Bengal, the Frontier Province and the United Provinces meant a definite rupture, and that it was no good trying to patch things up. Mr. Gandhi preferred to postpone his decision until he had ascertained the views of the Government of India. He accordingly telegraphed to the Viceroy, in effect asking for an explanation of the ordinances and whether friendly relations were closed. The Viceroy replied that in Bengal the Government must take all measures necessary to prevent dastardly assassination of their officers and private citizens, that it was impossible to reconcile the activities of the Congress in the United Provinces and the Frontier Province with the spirit of frank co-operation. He was prepared to see Mr. Gandhi but not to discuss with him the measures which his Government had found it necessary to adopt in the three provinces with the full approval of His Majesty's Government.

The Congress Working Committee, on Mr. Gandhi's advice, proceeded to pass a lengthy resolution in which they questioned the accuracy of the Government's statement of events, described the Prime Minister's declaration as "wholly unsatisfactory and inadequate in terms of the Congress demand," and declared that nothing short of complete independence would satisfy them. They tendered their co-operation "provided the Viceroy reconsiders his telegram and adequate relief is granted in respect of the ordinances and its acts, free scope is left to the Congress in any further negotiations and consultations to prosecute the Congress claim for complete independence, and the administration of the country is carried on in consultation with popular representatives, pending the attainment of such independence," and, finally, in the event of no satisfactory reply being received, they called upon the country to resume civil non-violent disobedience. This was to include the boycott of all foreign cloth, the boycott of British goods and British concerns, the vigorous picketing of liquor and foreign cloth shops by women, the

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unlicensed manufacture and collection of salt, the organisation of processions and demonstrations, civil breach of "non-moral" laws and of laws and orders injurious to the people, and civil disobedience of all important orders issued under the ordinances. They appealed for national economy, the non-purchase of goods on which customs duties are levied, and the boycott of government utility services and concerns such as posts and telegraphs, courts and railways; they assured the landlords that they had no design on interests legitimately acquired and called upon the landed and monied classes to help the Congress. Mr. Gandhi informed the Viceroy that the constitutional issue dwindled into insignificance in view of the ordinances and denied that events on the Frontier, in the United Provinces and in Bengal were open to the interpretation placed upon them by the Government of India. He stated, however, that the resolutions of the Working Committee would be suspended if the Viceroy would still consent to see him and discuss the present situation arising from the ordinances.

After the threatening resolutions of the Working Committee and the tone of the telegram sent by Mr. Gandhi, the Viceroy felt that he could give only one reply, namely, to express the Government's regret at the resolutions that had been passed, involving the general revival of civil disobedience unless certain conditions were satisfied. The Viceroy added that he considered the attitude of the Congress deplorable in view of the declared intention of His Majesty's Government. "No Government consistent with the discharge of their responsibility can," he said, "be subject to conditions sought to be imposed under the menace of unlawful action by any single organisation, nor can the Government of India accept the position implied in your telegram that their policy should be dependent on the judgment of yourself as to the necessity of measures which the Government have taken after most careful and thorough consideration of facts and after all other possible remedies have

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been exhausted." It was hardly possible for the Viceroy to invite Mr. Gandhi, with the hope of any advantage, to an interview held under the threat of the resumption of civil disobedience. The die was thus cast. Manifestos were issued. Mr. Gandhi in his last public utterance before his arrest urged the country to respond to the challenge of Government and appealed to Americans to watch the course of the struggle and to use, "for the sake of oppressed humanity, the influence of the greatest nation." Mr. Vithalbhai Patel, the ex-president of the Assembly, Mr. Subhas Chandra Bose and Mr. Jamnadas Mehta issued a joint statement condemning the Working Committee's conditional offer of co-operation and urging the establishment of new independence organisations in the country.

It is clear that Government's forbearance in face of grave provocation in the three provinces, the Prime Minister's statement and its acceptance by Parliament, and the assurance of the immediate establishment of a new constitution for the Frontier Province were wholly ignored by Mr. Gandhi and his lieutenants. In effect, they demanded the Viceroy's capitulation to conditions which would make Mr. Gandhi the arbiter of measures necessary for the maintenance of law and order, and which would leave the Congress free to pursue their subversive activities as they saw fit. If the Viceroy had agreed, he could expect nothing from the Congress except the freest exercise of its claim to independence; if he did not agree, the Congress would immediately embark upon its programme of civil disobedience. To the Congress leaders civil disobedience was not only the natural right of the people—especially when they had no real voice in their government—but an effective substitute for violence. It was obvious that the Government could no longer sit still and watch the progress of a movement that was deliberately designed to paralyse the administration and to inflict the maximum of harm on government, regardless of the loss

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it might entail on private individuals. It therefore acted with vigour and promptitude. A statement of policy was issued by it explaining that the movement was opposed to all constitutional principles and that in fighting it the Government of India was fighting the battle not only of the present Government but of the Governments of the future, and that it would be its duty to hand over to the new order a working administration and, to this end, to resist with all its might the forces which would create a state of anarchy and chaos.

VI. CIVIL DISOBEDIENCE

MR. GANDHI and Sardar Vallabhai Patel were at once arrested under Regulation III of 1818. On January 4 four ordinances were promulgated to deal effectively and promptly with the Congress plan of campaign—(1) the Emergency Powers Ordinance, (2) the Unlawful Instigation Ordinance, (3) the Unlawful Association Ordinance, and (4) the Prevention of Molestation and Boycotting Ordinance. These ordinances, the titles of which sufficiently indicate their scope, give very extensive powers to the authorities charged with the maintenance of law and order for the protection of law-abiding citizens. The life of an ordinance is six months only, though it can be renewed, and the policy of the Government has always been to utilise its provisions only for so long as the situation demands. In the provinces concerted action has been taken. Numerous Congress leaders have been arrested; many have been served with notices prohibiting them from addressing meetings, taking part in demonstrations, encouraging picketing or actively aiding or abetting the civil disobedience movement. Steps have been taken to close Congress offices, to sequester their funds and to check, as far as possible, new contributions to them. Processions and demonstrations have been on a smaller scale than might have been expected, but in

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every large city such demonstrations have been held in defiance of orders. They have been controlled without difficulty and, so far, have not assumed any dangerous importance. The arrest of leaders has passed almost unnoticed. Many persons have been and are being convicted daily and sentenced to varying terms of imprisonment. The presidents of working committees, "dictators" and members of war councils follow one another into office and jail in bewilderingly rapid succession. The authorities on their part have not been slow to mobilise opinion on their side. At all important centres meetings have been convened to pledge to merchants and business men the support of Government against picketing and boycott. It seemed not improbable that a determined effort would be made to picket petrol stations and to prevent the export of wheat, cotton and gold, but so far no great success has been achieved in this direction, and indeed the exports of gold are increasing. The general upheaval and the partial paralysis of government, which the Congress leaders confidently expected would follow their arrest, have not occurred, and victory in the first round has gone easily and unmistakably to the forces of Government. The end, however, is not yet in sight, and despite the absence of any disquieting incidents up to date, a constant strain is placed upon the authorities, who cannot for a moment relax their vigilance, and upon the public generally by the partial dislocation of normal business.

How long the struggle will last it is profitless to try to foretell. The Congress is a powerful organisation and occupies a unique position in Hindu sentiment. At this point, though generalisations are dangerous and need constant revision, it is possible to take some stock of the situation. The most striking feature is the lack of violent reaction against Government's policy. Is this merely a lull before a storm or is it the natural response in the East to an attitude of firmness? The moment was perhaps favourable to the Government. Congress funds were low

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and the country was not ready for civil disobedience. The experience of 1930 had been costly to the people and they disliked and resented the perpetual *hartals* and interference with their daily affairs. Some of the main features of the movement, such as the no-rent campaign and intensive boycott, though skilfully devised to strike a shrewd blow at the financial position of Government, were bound to react against Congress by the hardship inflicted upon many individual supporters. The depressed classes, again, have shown themselves definitely opposed to Congress pretensions and organised a monster demonstration against Mr. Gandhi on the day of his arrival in Bombay. The Mahomedans are generally hostile to Congress and to Mr. Gandhi, and so far are keeping themselves aloof from civil disobedience, though they are still uncertain and disunited, and it is far from clear what line they will finally adopt with regard to government policy on the Frontier. At the same time, in the constitutional sphere work is progressing. There has been no difficulty in completing the membership of the Consultative Committee and the various committees appointed to deal with the franchise and federal finance. Much will depend on the labours of these committees, and if a friendly atmosphere can be retained, there is good reason for hope. But here, too, it will not be all plain sailing : the problem of federal finance is so complex in itself and so inextricably bound up with the interests of individual States that many reflective minds regard it as almost insoluble. The Princes have, in many cases, issued manifestos expressing their determination to stand by the Government in their fight against the civil disobedience movement. The loyalist section of the people has been gratified by the proofs of firmness, and the wobblers are turning to Government as the winning side.

The financial outlook is brighter : India's credit stands high and the price of Indian securities is rising. The policy of linking the rupee with sterling has been beneficial, for India's floating debt has been reduced to 61 crores from

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84 crores, and the whole of the £15 million sterling loan has been repaid without borrowing. The Bank rate has been reduced, and there has been improvement in the rupee prices of certain commodities, especially cotton.

Thus from many points of view the signs are favourable, and one might logically expect the co-operators to organise an intensive mobilisation of all reasonable opinion to push on reforms with all speed, to make every attempt to capture the new electorate and to consolidate their position against the left wing of Congress, which should become a small but irreconcilable minority, against the time when they themselves may assume responsibility for the government of the country. Unfortunately, there is little indication of this, and it seems likely that attempts may be made to bring pressure to bear upon Government to moderate their present policy against Congress. It is impossible to disguise the fact that the refusal of an interview by the Viceroy to Mr. Gandhi rankles in many quarters on sentimental and quite illogical grounds. Sir Tej Bahadur Sapru has put this point of view in moderate language when he pleads for an early resumption of discussion, and contends that no final solution can be found by the methods now adopted. Dr. Rabindra Nath Tagore, though not a politician, has expressed himself with greater force. The position may crystallise with the session of the Assembly which is about to begin. What will be its attitude? Notices of motions for the adjournment of the House in criticism of Government's policy have been received and attempts are being made to persuade the Mahomedans, especially those who are dissatisfied on personal or political grounds, to join in an attack upon the Government.* Whether or not such motions are carried, a certain sympathy with the Congress leaders, the general aversion of many politicians from

*A motion condemning the Government's policy in arresting Mr. Gandhi and Mr. Sen Gupta, and other actions under the ordinances, was defeated in the Legislative Assembly on February 2 by 62 votes to 44. Moslem representatives were divided in the voting.

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strong measures in times of emergency, and an inability to refrain from making overtures in public to extremists outside the House, may bring about some deterioration in the present situation, and the spring, as is not uncommon in India, may see some intensification of anti-government activity. It is, therefore, too much to hope for an early cessation of the struggle or an early defeat of the extremist element. We began this article on a note of qualified optimism. But the many elements opposed to extremism have it in their power, if they would but seize their opportunity, to turn the present situation to their advantage and to create an atmosphere of more positive confidence.

India.

January 25, 1932.

GREAT BRITAIN : TARIFF REFORM

THE last issue of *THE ROUND TABLE* left the chronicle of political events at the point where the National Government were about to meet a House of Commons nine-tenths of which were its supporters. The country was clearly on the threshold of a great effort. Would the leaders of the different parties be able to devise in collaboration an effective policy to bring it safely through, or would the clash of views end in deadlock and disintegration? Would a House of Commons containing over 200 inexperienced members and a large contingent of unplaced ex-Ministers keep the ideal of national unity before it? Four months' experience is all too short to give a definite answer, but it is at least possible to say that the prophets of sterility and the prophets of an early dissolution of the National majority have hitherto been confounded. The characteristic feature of the new House of Commons is not the vocal unrest of certain elements, but the hard core of quiet determination that the experiment of a National Government shall not lightly be abandoned.

I. GROUPS AND PARTIES

THERE are, of course, ragged fringes, and the House of Commons is by no means devoid of an Opposition. But the doing of the official Opposition (the Labour party) are to-day more important outside than inside the House. We left the unseated Ministers last December taking stock

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of their position, and considering the future line of action of their party. That process has continued. Some, Mr. Shinwell for instance, like Mr. Cole, would not willingly see the Labour party lose their class character, but Mr. Lees-Smith, the ex-Minister of Education, has repeated his conviction that they "are not likely to be returned to power on a purely working-class vote," and he again emphasised the need of "a practical appeal to disinterested men of good will in all classes. . . Our work hitherto," he said, "has been the direct redistribution of wealth by what are called 'social services,' and the increasing taxation of wealth. We have reached the limits to which Socialism can be carried in a capitalist society, and we have now to apply ourselves to problems of fundamental reconstruction and to work out the details of our Socialist doctrine's adaptation to the changed conditions produced by this century's industrial revolution." The same note of uncompromising Socialism is found in other speeches, notably in those of Sir Stafford Cripps, who is generally regarded as one of the "coming men" of the Labour party, and who is among the very few of its leaders who have retained their seats in the House. "Gradualism," he said in a recent address, "is gone from our programme for ever." As regards practical measures, Labour speakers obviously consider the control of the banking system the most important of their objectives, and the fiscal question has taken a second place. Their difficulties have, of course, been exceptional in the matter of leadership. Soon after they lost Mr. MacDonald, Mr. Henderson, his successor, fell ill, and after his recovery was obliged to occupy himself with the preparations for the Disarmament Conference, of which he is President. Then came the death of Mr. William Graham, the former President of the Board of Trade, a heavy loss for the party. But in spite of these handicaps they have not been letting the grass grow under their feet. A campaign is being carried on throughout the country with the object of enlisting a

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million fresh subscribers to the party. Rumours of overtures with the object of effecting a reconciliation between the Labour party and Mr. MacDonald—it was suggested that he might return to his former position in the event of a breakdown of the National Government—have been met by the emphatic repudiation of Labour spokesmen.

Inside the House the official Opposition is, of course, a mere handful, just the 50 odd Labour candidates who survived the election, and it counts for little. Mr. Maxton and his small group, still deprived of the official whip of the Labour party, have established themselves as a separate parliamentary entity.

One of the questions of the moment is, of course, what is Mr. Lloyd George going to do? Hitherto he has been represented in the House by the family party of three, but he is now back from Ceylon with, it is said, all his old health and energy. In the course of an interview on January 8, the day of his return, he gave the world to understand that if the Government announced its policy when Parliament reassembled at the beginning of February, he would be in his place in the House. He has not, however, yet occupied it, and on February 3 the head of his staff sent a chilly refusal to the appeal of a leading Yorkshire Liberal for a fighting lead on the tariff issue. Mr. Lloyd George had, the reply stated, already given "a very clear and uncompromising lead" at the time of the general election. His warning, however, that "the steps taken to ensure a majority of Conservatives in the House of Commons must inevitably result in the overthrow of the free trade system," was neglected by every leading Liberal and almost every Liberal Association, and, if the election figures were a reliable guide, by the overwhelming body of Liberals throughout the country. Now that it was seen that Mr. Lloyd George was right, it was all very well to call for a lead, but it was too late. There was no evidence, except in a few personal instances, that the decision of the Liberal Ministers to retain their portfolios in a tariff administration had met

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with anything but approval from organised Liberalism. When a substantial part of organised Liberalism throughout the country showed that it was ready to listen to Mr. Lloyd George, he would be "only too ready to play his part." It is really to the Conservative party that the student in search of a parliamentary Opposition during recent months must turn. Here, among the high protectionists, he will find some of the elements that started, though they did not consummate, the break-up of the Coalition in 1922. Their natural leader is Mr. Amery. So long as he and his friends were pressing generally for tariffs of some sort, they had most of the House of Commons behind them. But now that the Government has produced a tariff policy, the virtue will perhaps be taken out of this movement, though the policy of the Government is not on all fours with the policy this section has favoured. The bulk of members, as Mr. Geoffrey Lloyd said in his maiden speech, clearly want tariffs of some kind, but they will take their pace from the Government. Incidentally, before we leave this subject attention should be drawn to an interesting feature of the new House. A large number of the Conservative supporters of the National Government are new to Parliament, and two things are noticeable about them. They show unusual assiduity in attending debates and an unusual independence in their attitude towards the party machine.

II. THE NEW FISCAL SCHEME

WHEN the Government took office last October it found a situation in which everything was in a state of flux. With the pound no longer anchored, and disturbing factors on every side, time alone could show what was going to happen. The Government was like a ship sailing through uncharted seas, with rocks everywhere ahead and visibility low. It had to feel its way. The first step it took was a temporary one devised to restore

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the balance of trade, which had been recently moving against us, by checking imports. It imposed for the period of a year duties ranging from 50 to 100 per cent. on a number of dispensable articles and high specific duties on out-of-season market garden produce ; the range of imports ultimately covered by these duties probably amounted in value last year to between £30,000,000 and £40,000,000.

The favourable reception that these proposals met with in the House was largely due to Mr. Runciman, who defended with equal skill both inclusions in, and exclusions from, his list of dutiable articles. The fact, too, that these tariffs were proposed by a Liberal Minister supported by a unanimous Cabinet was a reassuring sign, and Mr. Runciman easily succeeded in defeating a sustained effort by the protectionist group to impose forthwith duties upon imports of iron and steel. So the first chapter of our new fiscal history closed with no further change. These particular duties were accepted by the whole Cabinet. In the meantime executive action in the field of immigration was more than keeping pace with legislative action in the field of imports. Under the Aliens Acts of 1914 and 1919, in consultation with the Ministry of Labour, the Home Office issued a number of orders banning the admission of certain foreign artistes—among others—into this country or terminating their permission to stay here, and generally tightened up the conditions under which foreigners are allowed to enter. This manifestation of economic nationalism was widely criticised in the press.

But it was no secret that something more was coming. Immediately after the departure from the gold standard, things, as the reader will remember, went remarkably well. People had been told of what happened in Germany in 1923, but there was no inflation here, and the pound before long found something like a level of its own, though no one could say whether it was a permanent one. Prices, moreover, did not go up in the way that had been predicted before the pound fell. Trade, too, began to pick up quite

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briskly ; indeed, the depreciation of the pound was greeted by a section of the press as one of the best things that could possibly have happened to us. But there was a flaw in the amber. Other countries also went off the gold standard or imposed extra duties to counteract the advantages that followed the depreciation of the pound. We were still, all things considered, doing better than might have been expected, but, with the initial and most encouraging effect of the fall of the pound last September fresh in their minds, people began to get impatient. One often heard the question asked, is the National Government (which people had welcomed as a kind of god in a car) going to do anything after all ? What that "anything" should be was not clearly defined, but the possible alternatives seemed to be three in number : (1) to allow the pound to find its permanent level and form no fixed plan of action for the present, hoping that an improvement of the political situation through a settlement of the reparation question and the success of the Disarmament Conference, combined with international effort in the field of currency and finance, would start a general economic upswing ; (2) to reduce costs by adopting some such scheme as the Germans or the Australians had carried through by means of sacrifices all round, and (3) to impose tariffs or other measures of trade restriction. And there was little doubt in people's minds that it would be tariffs.

During the Christmas recess the fiscal policy of the Government took shape under the hand of two sub-committees of the Cabinet dealing with the balance of trade and with agriculture. As it was revealed by the Chancellor of the Exchequer on February 4, this policy was to impose a general tariff of 10 per cent. on all articles, except those already dutiable and certain specially exempted goods, including wheat (which is to be dealt with by a quota scheme), meat and bacon, British-caught fish, and wool and raw cotton. (When the text of the Bill was published it was found that the free list included also tea—which was

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reserved for consideration, along with other beverages, at budget time—raw flax and hemp, hides and skins, newspapers and books, newsprint and wood-pulp, rubber, iron ore and scrap, tin ores, phosphates of lime and a few other commodities of less importance.) Besides these exceptions, goods from the colonies were to be exempt permanently, and those from the Dominions temporarily, i.e., until some new arrangement should have been reached at the Ottawa Conference. It is further proposed to establish an independent advisory committee “for the purpose of giving advice and assistance to the Treasury.” The whole field of imports, with the above-mentioned exceptions, will be open to review by the Committee, which may recommend selected additional duties—as high or low as they consider necessary—for enactment by Treasury order after the Treasury has consulted with the appropriate department. No initiative will, however, rest with the Treasury.

Mr. Chamberlain prefaced his proposals with a review of the economic situation, beginning with the bright side. He referred to the improved revenue prospects—largely due to the patriotism of the taxpayer—to the fact that up to the present the cost of living has “almost miraculously” remained unaffected by the depreciation in the value of sterling, which itself has remained steady notwithstanding the repayment of its large foreign credit by the Bank of England without any loss of gold; to the fact that other countries, also forced off the gold standard, are looking to sterling as the best measure of the value of currency during the period of suspension from the normal standard. Lastly, he recognised the “definite but somewhat partial and uncertain improvement in trade,” and what is, he added, perhaps best of all, the more hopeful feeling which undoubtedly exists to-day. In spite, however, of these bright features, we have not, Mr. Chamberlain pointed out, yet turned the corner, and he reminded the House of the deplorable condition of world trade as a result of the catastrophic fall of the gold prices of world

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commodities and of the effects of this fall upon a great exporting country like Great Britain. Other bad features to which he alluded were "the extraordinary growth of trade restrictions," such as surtaxes, quotas, exchange control systems, etc., the reparations and war debts deadlock, and lastly the new disturbance in the Far East. Unemployment figures, too, he reminded us, still remain of colossal dimensions. The iron and steel trades were in a stagnant condition; shipping and industry generally were in the depth of depression. The good effects of the depreciation of the pound were being whittled away, and there could be no confidence that sterling would be firmly established with a heavy adverse trade balance (which Mr. Chamberlain estimated at £113,000,000, even allowing for invisible exports and interest on investments abroad), and with the limits of taxation practically reached and the volume of exports lower by nearly 38 per cent. than in 1929.

The objects of his policy as given by Mr. Chamberlain are summarised by us below:—

- (1) To correct the balance of payments by diminishing imports and stimulating exports.
- (2) To fortify our finances by raising fresh revenue without unduly burdening any section of the community.
- (3) To effect an insurance against the possibility of a rise in the cost of living which would follow an unchecked depreciation of sterling.
- (4) To introduce a system of moderate protection scientifically adjusted to the needs of industry and agriculture.
- (5) To enable our people under cover of this protection to adopt more efficient methods of production and distribution.
- (6) To give the Government a lever for the purpose of negotiation with foreign countries.
- (7) To enable us to get the Dole in return for those which they now give us or may be disposed to give us.

On these proposals it had proved impossible to secure unanimity in the Cabinet; four Ministers, Lord Snowden, Sir Herbert Samuel, Sir Archibald Sinclair and Sir Donald Maclean, finding themselves unable to agree to them. It

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was, however, arranged that the Cabinet should not break up, and the dissentient Ministers were to be free publicly to oppose the measure.

III. THE DISCUSSION IN PARLIAMENT

CRICISM has come from more than one quarter. To take that of the free trade members of the Cabinet first, they objected, above everything else, to the scheme on the ground of its permanence. This was Sir Herbert Samuel's main point in the speech which he made in the House of Commons on February 4. The Government had, he said, been given a mandate to take any measure, tariffs or anything else, that could be shown to be the necessary and the right way of redressing the unfavourable balance of trade and helping the nation in the present emergency. But, in the policy put forward, the redress of the balance of trade was only one of several purposes. The Chancellor of the Exchequer indeed had stated the case for a permanent scientific system of protection, the culmination of his father's tariff reform campaign of thirty years ago. Sir Herbert Samuel denied that there was anything in the present situation to justify such a measure. As for the adverse balance of trade, it was "disadvantageous" but not disastrous. It was only one of the causes of the depreciation of the pound, not a vital one, and, even if it were necessary to set the balance right, a 10 per cent. tariff would keep out too few goods to achieve that purpose.

I summarise therefore (said Sir Herbert Samuel) the objections which I submit to the Committee on the 10 per cent. all-round tariff. It is not the right way to deal with questions of the balance of trade; it will exclude an exceedingly small proportion of the goods which it taxes; the balance of trade effect will be merely secondary and incidental, and the protective and taxing effect will be primary and predominant. Secondly, this is not a measure which is temporarily dealing with the present emergency; it is intended to be, and it will be, of a lasting character. Thirdly, it

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will tax to the extent of 10 per cent. a greater part of the materials of manufacture and the food of the people. We have to consider whether that is necessary and wise. It is no lever to secure the efficiency of industries, because the privilege of protection is to be accorded to all alike, without conditions. It is no weapon for bargaining with foreign countries, because it is to be the basis of commercial treaties with the Dominions, which will preclude such concession.

You cannot (Sir Herbert Samuel had said) go to the Dominions in July and say, "If you will give privileges to our produce we will give privileges to yours against foreign countries," and then, when an arrangement of that kind is signed and sealed to cover a period of years, afterwards go to the foreign countries and say, "If you cease to penalise our goods, we will give you privileges under our 10 per cent. tariff." It cannot be done. It would be contrary to the bargain entered into.

It might be worth while, he said, tying ourselves up for real Empire free trade, but that, as everyone knows, could never be agreed to by the Dominions.* Nor, continued Sir Herbert Samuel, was it only a matter of a general tariff of 10 per cent. Higher duties, without limit as regards either amount or time, could be proposed by the advisory committee. It was supposed to impose restrictions and qualifications, but could that be done by it without discrimination? Yet efficiency and prices were both essential matters.

The independent advisory committee itself came in for criticism from more than one angle. Sir Herbert Samuel, for instance, pointed out that this committee would have to survey the whole field of British industry in order to make its proposals with regard to duties before the Abnormal Importations Act ceased to have effect, i.e., in a few months, and he considered that this would be an impossible task. Mr. Amery, too, thought that the Chancellor was putting too much upon the committee, and he further considered that he was withdrawing too much from the responsibility of the Government. He did not indeed feel happy that the committee was being

* An article on Imperial Preference will be found on p. 246.

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given anything like sufficiently definite marching orders. He pointed out how "curiously chaotic" the present tariff situation was in this country. The differences between existing tariffs had nothing to do with the structure of industry and had arisen purely at haphazard. Captain Macmillan would have developed the tariff committee "into something more than a merely judicial body following the rather unsatisfactory system of the safeguarding duties inquiries," and more on the lines of a real development commission directing and planning the growth of our economic life. Mr. Amery welcomed the Government's measure, but he welcomed it as "an initiative, an adumbration of a tariff . . . a fledgling rather than a grown bird," and he had some fundamental criticisms to make. The fault he found with the 10 per cent. general tariff was the same as Sir Herbert Samuel's—a case of extremes meeting. It was, he said, totally inadequate to perform its purpose. He was, however, thinking more particularly of the protective object in Mr. Chamberlain's seven points. The revenue point he brushed aside—you could get more, he said, by transferring industry to your own country. It would take some time, too, he felt, for the advisory committee to frame the new scale of duties, and meanwhile time would be given for more dumping and uncertainty. The essence of the matter was, in his opinion, time. Many industries were already at their last gasp. Moreover, foreign firms, now thinking of setting up industries here, would naturally wait till the committee's recommendations were out. It would, he thought, have been infinitely simpler to have adopted his own plan—to impose a general emergency industrial tariff of two or three or four grades. It could then, he claimed, have been easily adjusted to "whatever standard and appropriate rate of the highest duties on fully manufactured goods the Government decided upon." And the committee could have been left to rectify mistakes.

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Sir Herbert Samuel outlined to the House some alternative constructive proposals that he had put before the Cabinet. Briefly, he would have set up an industrial commission to which our industries could submit schemes of rationalisation and for raising capital. If they needed protection during the process he would not be against giving it "whether by licences, quotas or in any other way," subject, however, to conditions as regards prices and to the period being only for so many years, to the consumers having a say in the matter and to each scheme obtaining the sanction of Parliament.

Mr. Runciman's speech five days later was awaited with considerable interest. He had himself always been a free trader and he claimed to be one still. Some of the decisions, he said, inevitably went very much against the grain with him, but the pre-war days, and indeed the pre-crisis days, had gone. He approached the matter as a business man. Sir Herbert Samuel himself would have granted protection for certain purposes. In considering the Government's proposals, Mr. Runciman claimed that he did so mainly as "a director of slimming." Imports had to be thinned down. He agreed with Sir Herbert Samuel that a 10 per cent. tariff would not redress the balance of trade. It would only contribute to that end. But, he added, "the additional duties will fill up the gap." Sir Herbert Samuel had devoted the greater part of his speech to the 10 per cent. tariff—Mr. Runciman indeed twitted him with the comparative mildness of his criticism of the additional duties—but Mr. Runciman himself also concentrated his arguments to a very large extent on the 10 per cent. duties. The point with which he was especially concerned, by contrast with Sir Herbert Samuel, was revenue, though he referred to the "gentle protection" that would result from the duties, to their "slimming" effect and to their value for bargaining purposes. But the £30 million which would be obtained from the 10 per cent. general tariff—and without increasing the cost of living at all—was essential.

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"The consolidation of the internal financial position, especially from a revenue point of view, and with special relation to our obligations and our capacity to carry through transactions abroad," was the paramount consideration. "We cannot," he said, "afford to reach March 31 short of the full revenue to meet the expenditure of the year." In spite of some bright features in the situation, we were by no means through the crisis. Capital was still being withdrawn from London. The exchange bonus we got from the gold basis countries must disappear in time, as the sterling area, which already included pretty nearly half of the world, extended, and as prices were readjusted. It was the budget of last August and September that kept up the reputation of sterling, that and our enterprise and the integrity of our financial houses. But the splendid effort of the taxpayers (many of whom had had to borrow the money at close on 7 per cent.) could not be relied on again, while the crisis in the Far East and the sudden new increase in unemployment* threatened to add to expenditure. The Bank of England had repaid its credits of £50 million, but there still remained £80 million more which the Government itself had to pay. We could not afford to neglect any source of revenue open to us.

Let me make a very rapid summary, therefore (said Mr. Runciman), of the position in which we find ourselves. We are off gold. We are anchored to trade and confidence. We have only been able to achieve that anchorage by keeping our revenue right up to the level of our expenditure, or, if you like, keeping the expenditure down to the level of revenue. If confidence abroad slackens or is diminished, we shall find the effect of that upon our people here and our industries grave indeed. Indeed, the position will become increasingly worse. As I understand statements made here and elsewhere, there is no member of the Cabinet who says "Leave it alone and it will come all right." No one says that. All that has been swept away—all patient complacency—from the public mind. Neither the public in this country nor elsewhere would regard this

* The number of unemployed at January 25 was 2,592,650, an increase of 218,490 over the previous month.

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country as being in a safe position if we were to allow things to drift. We cannot afford to do so.

With half the world off gold, automatic adjustment of our payments and balances abroad could no longer be expected from the ordinary operation of the foreign exchanges and so forth. The Government could deal with the balance between exports and imports, but they could not do much to extend exports except by negotiation, and for that purpose they could, if necessary, reduce the 10 per cent. to get a *quid pro quo*. Mr. Runciman saw no such tendency on the part of northern European countries as Sir Herbert Samuel had mentioned to reduce tariffs in recent months. As regards permanence, nothing in this life, he said, certainly nothing in our fiscal system, was permanent. The advisory committee would have a definite mandate, namely, that it

should have regard to the advisability in the national interest of restricting imports into the United Kingdom, and the interests generally of trade and industry in the United Kingdom, including those industries which are consumers of goods as well as those trades and industries which are producers of goods.

It remains to describe the Government's policy with regard to agriculture, with which Sir Herbert Samuel is definitely in sympathy except as regards the tariff proposals. It was announced on February 11 by Sir John Gilmour that agriculture and horticulture would be affected as well as industry by the 10 per cent. general tariff and by the advisory committee's power of raising duties. The wheat producer was to be assisted by a quota scheme intended to give him a guaranteed market and an enhanced price for grain of millable quality. The question of imposing an additional duty on malting barley (or alternatively of adopting a quota scheme for it and the commodities at present covered by the horticultural duties Act of 1931) was being considered.

As regards milk and milk products, the Government aimed at the improvement of marketing. A reorganisation

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commission was to formulate schemes, and would also go into the question of diseases in dairy herds. A scheme for the organisation of the bacon industry was being prepared and, if satisfactory, the Government would be ready to regulate imports quantitatively. The same thing was proposed for the potato growers and a special reorganisation commission would be appointed, if desired by them, to prepare a scheme. Agricultural questions and research and land settlement were to be promoted as far as our means would permit. Attention would be paid to better grading and identification of home products. No changes were proposed in the system of regulating agricultural wages, but the attention of workers would be drawn to existing facilities for obtaining redress.

Cabinet Solidarity

But there remains another question, the constitutional one of Cabinet solidarity. The common belief has been that, if there is a split in the Cabinet over a point of first-class importance, the dissenting minority must resign, and the novel spectacle of the Home Secretary, Sir Herbert Samuel, in his normal place on the Government bench, standing up and using his considerable powers of argument in order to demolish the Government's proposals excited considerable feeling. Votes of censure on the Government were moved in both Houses: in the Commons by Mr. Lansbury and in the Lords by Lord Banbury—another interesting example of extremes meeting. History and precedents were freely quoted. It was claimed that the doctrine of collective Cabinet responsibility was only a century old and that it really grew with the party system. Lord Hailsham quoted cases in which Cabinet Ministers had voted against the Cabinet, the latest being that of Sir Austen Chamberlain and Lord Carson, who both voted against the Government of which they were members on the question of women's suffrage. Most of the critics were, however, more concerned with practical considerations

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than with precedent. Queen Anne is dead, but the British constitution is a living ever-changing organism. That is its strength. The real question is what would be the consequences of this new departure? Extracts from a Liberal newspaper were read in the House of Commons welcoming the retention of the four free-trade Ministers, and pointing out that "free traders were now bound to mobilise for the support of their principles." Mr. Baldwin complained some time ago at Aberdeen that "one of the difficulties of a coalition Government was that when you passed the ball you never found the other member of the team in the right place." This was not, however, said Mr. Boothby, what the Unionist party objected to in Sir Herbert Samuel. He was exactly in his right place, but when the ball was passed to him "he shot as hard as he possibly could at his own goal." He ought, they felt, to change his jersey. But the main attack was on the Government itself for making the agreement to differ. Sir Herbert Samuel had made it clear that it was not the dissentient Ministers who had been unwilling to go—they had offered to resign—but that their colleagues, at the instance of the Prime Minister and the Lord President of the Council, proposed that the Cabinet should hold together. Lord Snowden, too, declared that the condition that he should have the right to express his own views in the country was not claimed by Sir Herbert Samuel himself but conferred on him by the Cabinet. In spite of the steam let off in the course of the debates, the result in both Houses was an overwhelming defeat of the vote of censure. In the Commons there were only 39 ayes against 438 noes, and in the Lords 7 contents and 74 not-contents, and the Conservative critics, except Lord Banbury, voted with the majority in both Houses. The Government's action was supported on various grounds. Some, as Lord Hailsham pointed out, acclaimed it as an advance forward towards a new principle in political government. Others welcomed it as a return to the good old times when everyone,

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Ministers as well as others, could speak their minds. Lord Snowden's view was that "all human progress has been made by ignoring precedents."

There is little doubt that the decision of the Cabinet to hold together has the support of the country generally. It elected the Government as a national, not as a party, Government, and it wishes it to go on with its task, which it has hardly begun. The Liberals, whatever the feeling of the younger men, are prepared to fall in with the decision of their dissentient Ministers, and Lord Grey has given it his blessing.

There are indeed only two questions: first, is the new departure in the interests of the country and, second, will it work in this particular case in practice? The first question has already been answered by Parliament. Its justification is the number of vital questions which remain to be dealt with, and on which the Cabinet is agreed, e.g., disarmament, Imperial and foreign relations, reparations and war debts, monetary policy, India, unemployment, and the trouble in the Far East. The second question will be answered by the event.

It is possible, however, to consider the prospects. It is obvious that the fears of Conservative critics were not without foundation. Lord Snowden himself remarked that no one could tell how the new experiment would work. Free-trade opposition is clearly not going to remain content with one final protest. "That," said Lord Snowden, "speaking for myself, and I should think for my dissenting colleagues, is a condition that we would not accept. It (free trade) will be an issue at the next election," and the free trader cannot, he added, be expected to leave the field between now and then—it may be for years—open for the protectionists, though he agreed with Lord Banbury that they must defend their proposals outside and not inside the Cabinet. On the other hand, the Cabinet itself obviously believes that the experiment will work. Otherwise they would never have unanimously agreed to it,

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and Lord Snowden himself, in spite of his uncompromising attitude, thought the arrangement worth trying, and he further told the House of Lords that it would, in his opinion, "be justified by results." He believed "that we shall be able to co-operate and to continue to co-operate in carrying out the work for which the National Government was formed."

IV. THE INDUSTRIAL POSITION

THE break-away from the gold standard encouraged a burst of industrial optimism, which the experience of four short months has sadly chastened. The advantages seemed so clear, the benefits so unmistakable. It appeared to be almost a matter of simple arithmetic that, if at a stroke we could cut our selling prices in terms of gold, our exporting position would be enormously strengthened. But even in the first weeks of the new era, prudence dictated that hopefulness should be hedged round with the most gloomy reservations. Now, after five months, the reservations have overgrown and almost checked the hopes. There was up to Christmas an increase of employment in Great Britain at a time when most other countries saw their unemployment figures rising, but there has been no increase—rather a diminution—in the volume of world trade, and in world purchasing power.

In the last number an impression was given of the first reactions of the cheaper pound on British industry. It is much harder to assess their present force. The improvement in employment has been the most tangible sign, and the latest figures show that it was largely deceptive. Between September 28 and December 21 the number of persons on the unemployment registers of Great Britain dropped by 315,800. From the end of October the registers began to be influenced by the disallowances of benefit under the Anomalies Act (which in the main affected married women); from towards the

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end of November the disallowances of transitional benefit under the means test began to be felt. Of course, disallowance of benefit does not necessarily entail removal of the applicant's name from the unemployment register, but by December 21, on the Ministry of Labour's estimate, 90,000 of the apparent reduction in the number of unemployed persons was accounted for by the withdrawal from the registers of these disallowed claimants to benefit. This made out the net reduction attributable to an increase of employment to be 225,000, a fairly substantial figure. But the seasonal falling off in employment after Christmas was rather heavier than usual, and the unemployment figures for January 25 showed an increase over the December total of 218,000. This was spread over most industries and parts of the country, and indicated a distinct setback.

As, according to the Ministry, the administrative changes did not vitiate the occupational figures for December, some idea can be formed of the changes in the last three months of the year. The following figures illustrate how the earlier improvement in employment was most marked in textiles and coal, was less noticeable in the heavy manufacturing industries, and was absent altogether in shipbuilding and the shipping services. Building suffered a sharp seasonal increase.

	Percentage Unemployed		Percentage Unemployed			
	Septem- ber 21	Decem- ber 21	Septem- ber 21	Decem- ber 21		
Coal mining	..	30·4	24·6	Steel melting and iron puddling, etc.		
Textiles :-				49·2	45·4	
Cotton	45·8	27·4	Tin plates ..	42·3	36·5
Woollen and worsted	35·5	16·6	Engineering, General	30·1	26·8
Silk manufacture and artificial silk weaving	36·9	22·6	„ Electrical	15·0	15·1
Artificial silk yarn	..	31·3	21·9	„ Marine	49·3	51·2
Linen	32·6	19·8	Motor vehicles, etc.	23·6	22·2
Jute	48·3	36·6	Shipbuilding and repairing ..	58·2	60·1
Hosiery	18·6	10·7	Shipping service ..	32·5	34·7
Lace	24·2	14·3	Dock, harbour and river service ..	38·7	35·4
Textile bleaching, etc.	39·6	28·4	Building ..	21·0	28·6
				Public works con- tracting ..	31·0	35·6

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The export returns have not reflected an expansion commensurate with this increase in activity. In textiles, from which most might have been expected, the November and December results were particularly disappointing, although January made a slightly better showing. But under the extraordinary conditions of the crisis, the trade returns throw very little light on the real competitive ability of British industry as it has been changed by currency depreciation. Every exporting industry has found its outlets increasingly blocked by steeper tariffs, import regulations and exchange restrictions. A disproportionate part of recent activity has probably been for the home market, but here again it is difficult to weigh up the respective influence on production of import duties and prospective tariffs, of higher gold prices of imports, of wholesalers' anxiety to cover themselves against higher prices, and, on the other side, of forestalling by foreign manufacturers. The bullish atmosphere created by the steadiness of sterling and the political enthusiasm for the tariff may have assisted to keep up the home market, while, at the same time, it has served to obscure the extremely unpromising outlook for exports.

Nothing better can be expected so long as all countries continue their desperate efforts to sell, and simultaneously to prevent other countries from selling to them. The depreciation of sterling, and of the other currencies that followed it, provoked early retaliation in the shape of anti-dumping measures, notably in France, Canada, South Africa, Germany and Holland, intensifying the strangling network of restrictions on all dealings in foreign exchange, which has become almost universal. The British coal industry, for example, found its currency advantage largely neutralised by retaliatory measures like the French and German quotas for imports, the Italian surtax and landing-tax, and by counter-action like the strenuous efforts of the Polish owners—aided by fresh Government subsidies and lower wages—to maintain their exports at all

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costs. The cotton industry received a shock when Japan also left gold (in December), and although anti-Japanese feeling should preserve the China market for Lancashire, the military operations there make the demand partially ineffective. It is of limited value to industries such as these to know that their home market is protected by 50 per cent. duties on the top of the exchange protection. Even the woollen and worsted industry which, as the figures quoted show, has the largest fall in unemployment, is largely dependent on exports, and cannot look to either a home monopoly or an extended Imperial trade as a sufficient substitute for its trade with foreign countries.

It can hardly be said that the five months since September 21 have worked any serious change in social standards. The cost of living advanced no more than might have been expected seasonally, and retail prices do not, as yet, show much tendency to rise. Last year saw the most considerable reductions in wage rates of any year since 1922, equivalent, on the Ministry of Labour's reckoning, to an average reduction of 2 per cent. over the whole field of industry, but few changes took place in the last three months of the year, and the movement appeared to have slackened. A second wave is now apparent. In January dockers' wages were reduced by 10d. a day (or 7 per cent. for piece workers), the first change since 1924. This was an interesting settlement, because in the summer the dockers had stood out against any reductions, in the hope that, by taking a stand against deflation, they might reverse a process which to them seemed endless and disastrous. Depression proved, however, more potent than theory, and an agreement was negotiated whereby, at the price of a sacrifice of wages (which still left rates as high as in 1923), they preserved the working conditions which the employers had menaced. The acceptance of the agreement by the great mass of the dockers—once so unruly and so easily inflamed—was a triumph of loyalty and discipline for the Transport and General Workers' Union; its

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members stood firm while the small Thames union of watermen and lightermen carried on all through January and into February a solitary struggle against the new terms. The historian of Labour during the crisis will probably note the curious fact that the most active endeavours of Communist propagandists to influence the dockers utterly failed, and, indeed, provoked physical resentment against their interference. The reductions in the wages of officers and men in the shipping service, negotiated in December and January, were also dictated by the extremely serious depression in an industry which, although "unsheltered," had long maintained rates unaltered.

In other industries dependent on export trade there have been few recent changes. The Yorkshire heavy woollen industry in January enforced the wage cuts adopted by other sections of the trade last summer. The movement among the "sheltered" home trades for reductions was seen in the proposals of the London Underground Group for a temporary cut in London transport wages, the agreement for a reduction of tramwaymen's wages, and the action of local authorities in lowering the wages of some classes of their employees.

The cotton industry again presents a spectacle of disturbed industrial relations. At the end of the year the Federation of Master Cotton Spinners' Associations ended the 48-hour week agreement entered into in 1919, but without substituting anything in its place. The intention of securing an agreement for an extension of the working week (a return to the pre-1919 figure of 55½ hours was in contemplation) was frustrated by the unions' refusal to negotiate and by the lack of support from the other sections of employers in the industry. The spinning section of the industry is therefore left without an agreement. So far, however, only a small isolated group of employers, who had broken the agreement while it was still in force, are not observing the 48-hour week. The

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incident appears to have no moral except to illustrate the tendency in the textile industries for collective bargaining to lose its old strength. This has already been the experience in the woollen and worsted industry, and it is being repeated in the cotton manufacturing districts, where pressure of internal competition has led to many breaches of wages and hours agreements, and where the unions' reluctance to accept changed methods has led many employers to make their own bargains with their workpeople. The negotiations for a county agreement on the operation of the system by which a weaver works more than four looms have pursued an uneasy course, but with better hopes of success than at any time in the last two years.

The same weaknesses and lack of purpose have been displayed in Lancashire's reception of the scheme put forward by the Joint Committee of Cotton Trade Organisations for the elimination of surplus plant. The proposal is that the industry should go to Parliament for powers to raise money for the purchase and immobilisation of surplus machinery. A levy would be imposed on existing machinery, the proceeds of which would provide service for the loan. A body of trustees, appointed by Parliament, would receive offers of plant which its owners would rather sell at a low price than keep in idleness or assessable to the levy. The existence of a redundancy of at least a fifth of the industry's productive resources has been made abundantly clear. On the most optimistic estimate of the volume of trade that Lancashire can hope to recover in the post-war world, the existence of the surplus remains a fact. The Joint Committee's argument is that all constructive attempts at reorganisation are kept back by the continuance of bitter internecine competition, and that before there can be any successful approach to the problems of amalgamation, of improved distribution, of technical advance, there must be concentration of production in the more efficient plants. The assumption—which appears to be

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fully justified—is that in spite of the bitterness of the prolonged depression the normal economic forces have not forced the weaker units out of action quickly enough and are not likely to do so. The industry is urged to attempt to shorten the inevitable process by a surgical operation. The obvious objections are that the cost of the scheme forms an addition to production costs (although, it appears, only a fractional one), and that, as there is no compulsion on owners to sell, the administrators of the scheme will not have full liberty to select and close down the most clearly redundant units. The latter defect is probably inherent in any scheme that comes from an industry nursed in such strong *laissez faire* traditions and comprising such a multiplicity of units. If the cotton or any other industry is to place itself on the dissecting table of the scientific rationaliser it will hardly be of its own volition. As it is, the fate of the cotton scheme is in the balance ; it threatens to be defeated not on its merits but by the deadweight of hostility to any kind of united action. A large section of the disorganised industry still prefers to continue (to quote the phrase of the president of the Manchester Chamber of Commerce), as a "mutual suicide society." Still, the very emergence of such a scheme (as of the earlier one in the shipbuilding industry) does mark an advance in industrial opinion. How far it is likely to receive stimulus from the Government or Parliament is not clear. Sir Herbert Samuel's proposals to the Cabinet pointed in the direction of State-sponsored reorganisation, and although the idea seems to have been temporarily submerged by the tariff, it may not be lost.

THE IRISH FREE STATE

I. THE GENERAL ELECTION

DECEMBER 6, 1931, was the tenth anniversary of the fateful night when the Anglo-Irish Treaty was signed at Downing Street. The executive which then took over the government of the newly created Irish Free State still remains in office. There have been, of course, numerous changes in its personnel. Collins and Griffith, the principal architects of the new Ireland, died before it was a year old—Collins shot in an obscure ambush by his own countrymen, Griffith dying, ten days afterwards, literally of a broken heart. In that tragic hour few believed that William T. Cosgrave, the quiet, little, almost unknown man, so accidentally called to control the destinies of his country, was likely to remain in power until his Government was the oldest in Europe. That he has done so is a tribute not only to his personal qualities of courage, shrewd political sense, and determination, but also to the colleagues who have given him loyal support, and the people who were wise enough to place and renew their trust in his wisdom and integrity. Moments there have been during those ten years when grave decisions had to be taken. Such crises arose when the northern boundary had to be finally settled, when Kevin O'Higgins, Mr. Cosgrave's right-hand man, fell before the assassin's bullet, when Mr. de Valera and his party entered the Dail, and quite recently when armed conspiracy once more threatened the stability of the State.

The political fortunes of this country will, this year, again be thrown into the melting pot of a general election. The Government having seized the earliest opportunity

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to take the verdict of the electors, it has now been decided that polling will take place on February 16. Mr. Cosgrave could, of course, have remained in office till September, when his Government's term would expire, but the world developments in economic affairs, which involve the relations of the Free State with other countries—and especially with Great Britain—make it imperative that the Government which handles these difficult and delicate questions should have a fresh and decisive mandate from the people. Moreover, the Eucharistic Congress, which takes place in June, would have made it impossible to hold a general election during the summer months. The Cumann na nGaedheal, or Government party, is standing on its past record. It claims, with considerable truth, that by its policy of scientific tariffs, improved agricultural production, conservative finance, and completing land purchase, it has placed the economic life of the country on a sound basis. On the political side it points to the Statute of Westminster as embodying the full fruits of its external policy, which has aimed at achieving the co-equal status of all the States in the British Commonwealth, and to the position of the Free State on the Council of the League of Nations as proving that we have once more taken our rightful place amongst the nations. At home it justly claims to have restored order and secured respect for the law. The prospect of obtaining from the British Government a preference for Irish agricultural produce should undoubtedly secure many votes in the rural districts, where the farmer has a shrewd idea of the benefits that closer economic relations with England would entail. There can also be little doubt that an agreement has been reached with the British Government about the right of appeal to the Privy Council, and that, already dead *de facto*, this right will soon be formally repealed.* It

* See THE ROUND TABLE, No. 78, March 1930, p. 365, *et seq.*, and No. 84, September 1931, p. 859.

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is not explicit in the Treaty and only arises because Article 3 in matters of doubt applies Canadian constitutional practice to the Free State. Inasmuch as this appeal has long ceased to be an even nominal protection for the minority whom it is supposed to safeguard, and who are in no peril, it may just as well be formally and decently buried and forgotten. This then is the strength of the Government's position and programme.

But there is another side to the story. It cannot be denied by any competent observer that the Government is unpopular for many reasons. In the first place it has administered the law and enforced taxation with stern impartiality. It has abolished the old system, deeply rooted in Irish life and tradition, of making influence rather than merit the deciding factor in public appointments. In this connection it is interesting to note that Miss Dunbar Harrison—the young lady whose appointment as librarian in County Mayo* created such a dishonest *furore*—has now been promoted to the position of librarian in a Dublin government office, a solution which is fair to the lady, soothing to the Mayo bigots and good for the Government. The Government is also unpopular amongst a large and soft-headed section of the community who are always prepared to condemn any strong action, such as the setting up of the Military Tribunal, as tyrannical. It has spent considerable sums of money on public works like the Shannon power scheme, the value of which is not at the moment self-evident, and it has refused to yield to the interested clamour of certain industrial interests for "whole-hog" measures of protection. It is quite true that any new Government, if it desired to survive, would have to adopt similar methods, but this is a simple truth which the average Irish elector has yet to learn. It is indeed one of the strongest arguments for a change of Government, were a really strong and competent alternative Government

* See THE ROUND TABLE, No. 82, March 1931, p. 403, *et seq.*, and No. 84, September 1931 p. 857.

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available. Irish voters do not, however, quickly or lightly change their allegiance, and it is very difficult to say how far the feelings above referred to will find expression in the ballot box. There has undoubtedly been during recent months a marked consolidation of moderate constitutional opinion, as is proved by the fact that Captain William A. Redmond, T.D., has now joined forces with the Government party. At a big meeting in Waterford, Captain Redmond's constituency, on November 15, the reconciliation was sealed by his appearance on the same platform with Mr. Cosgrave, who paid a warm tribute to the services rendered to the cause of Ireland by the old Irish party, and said that the freedom we now enjoy would not have been possible but for the efforts of its leaders. Captain Redmond, on his side, said that he was there to give practical effect, both in spirit and letter, to the response that he made to Mr. Cosgrave's appeal for co-operation. It was idle to deny that there had been differences between them in the past, both of method and of policy, but he could, as an Irishman, claim that they had at any rate one common object, and that was the welfare of their country. This new political alliance is both natural and sincere, but it may be doubted whether its advantage to the Government party will be very great. Captain Redmond's many friends will undoubtedly rejoice that John Redmond's son has at last taken his proper place with the moderate and constructive element in Irish politics, but most of them had already preceded him in that direction, and, like the Duke of Plaza Toro, it is to be feared that he is now leading his army from behind. However, his adhesion to Mr. Cosgrave's party will undoubtedly bring it support, particularly in Wexford and Waterford, where his father's name is justly revered, and many supporters of the old Irish party throughout the country, who have been inclined to sulk in their tents since the Treaty, may now exercise their votes as he suggests. As Captain Redmond has in the past acted as one of the chief spokesmen and supporters

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of the licensed trade in the Dail it is quite likely that he may now also secure their support for the present Government. In this connection it is interesting to note that the Government have apparently dropped the Intoxicating Liquor Bill* they introduced in the early part of last year, and that Mr. Cosgrave, replying to a deputation from the trade at Waterford, indicated that if a private Bill was introduced embodying their demands it would receive consideration. The Government can, of course, also count upon the support of the Independent group, which to a great extent represents the Protestant and ex-Unionist elements, and also upon what remains of the former Farmers' party, which has been virtually absorbed by the Government since 1927. The Independents are certain to come back almost intact, as they represent a vote which is not likely to alter, and will probably be augmented by many voters who do not care to leave the Government in uncontrolled command of the political scene, but who nevertheless shrink from supporting Mr. de Valera. It is not improbable that a national panel will be formed of all candidates who generally vote in support of the Government on critical issues, and this would include men like Mr. Anthony and Mr. Morrissey, the two Independent Labour deputies whose support was recently given to the Government during the debates on the Constitution (Amendment) Act.

The policy of the Fianna Fail party at the election was clearly laid down by Mr. de Valera in his address to the sixth annual *Ard Fheis*, or Congress, of the party on October 27. If Fianna Fail secures a majority its first act will be to remove the oath of allegiance from the constitution. After this has been done a fresh general election will be held within a year or two, so as to give the extreme republicans, who now refuse to recognise the authority of the present executive government as constituted by the Treaty and constitution, an opportunity to secure repre-

* See *THE ROUND TABLE*, No. 83, June 1931, p. 619, *et seq.*

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sentation. This new assembly would sit as a constituent assembly deliberately charged with the revision of the constitution, so as to bring it, as far as possible, into accord with the national ideals. To avoid legal difficulties, the office of Governor-General might have to be retained in the initial period of taking over, but the ultimate aim would be to assimilate the office to that of President of the Republic. Mr. de Valera, no doubt stirred by old memories, has probably envisaged himself as the occupant of this position. The whole question of a second chamber, or, if such were thought desirable, of its composition and size, would be referred to the Constituent Assembly. It is noticeable that since Mr. de Valera's supporters have, by the process of proportional representation, begun to permeate the Senate his previous demand for the complete abolition of that body has been watered down. His most interesting admission was that he saw no immediate solution of the partition problem, that force was out of the question, and, were it feasible, not desirable, and that the only hope he could see for the reunion of our people was good government in the Free State and the establishment of such social and economic conditions as would attract the majority in Northern Ireland to throw in their lot with us. This is, of course, the attitude of the present Government. In regard to our relations with Great Britain, he defined the attitude of Fianna Fail as one of non-co-operation so long as Britain persisted in any attempt to force the terms of the imposed Treaty upon us. As regards economic problems, their aim was to make Ireland as far as possible self-sufficing. Home producers were to be given security in the home market, and every branch of agriculture would be protected; wheat growers would be given a guaranteed market at a fixed price based on the cost of production for all the sound milled wheat that they produced, the importation of such foreign wheat as was needed would be placed in the hands of a Wheat Control Board, and the importation of flour—except the relatively small quantity required for biscuit making—would be

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prohibited. In dealing with questions of agricultural and industrial development they propose to have the aid of an advisory council whose function it would be to examine and report to the Government on the possibilities and methods of promoting existing industries and establishing new ones. Care would be taken to ensure that fair working conditions were maintained in all the protected industries and that there was no profiteering at the expense of the community. A national housing board would be established with power to enter into contracts for building, to control the trade in building materials, and if necessary to engage directly in their production and importation, and in the erection of houses. They also propose to proceed with a systematic division of the larger agricultural holdings.

During the subsequent proceedings Mr. de Valera stated emphatically that there was no body in this country with the right to take human life, and, although he did not except the properly constituted government of the country, we must presume that this was implied. Such an admission would have been more valuable if it had been made many years ago. Even this statement was made extempore, and by no means coincides with the attitude taken up by Mr. de Valera's new paper, the *Irish Press*, or with the views of many of his own followers. It is obvious that on this, as on many other questions, his party speaks with two voices, and if it does not win the election—or even if it does—these divisions are likely to be accentuated. His promise to retain the land annuities in the Free State Exchequer and to apply their proceeds to a scheme of complete de-rating, to reducing uneconomic annuities, and to industrial development, still remains a prominent feature of his programme, and will no doubt secure him votes in the rural districts, although it would, of course, be more attractive if it involved, as his wild men originally stated, the non-payment of annuities to anyone.*

* See THE ROUND TABLE, No. 74, March 1929, p. 379, *et seq.*, and No. 80, September 1930, p. 820.

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It is notorious that the Fianna Fail war chest is not in a healthy condition, and during the proceedings at the Congress Mr. Lemass, T.D., definitely stated that the task of raising an adequate election fund had still to be faced, and indicated that each constituency would have to be self-supporting to a very large extent.

The Labour party is in somewhat similar plight, and if it succeeds in returning the same number of members as at present it will be fortunate. Its strength lies chiefly in the urban districts, and its policy of modified State socialism makes little real appeal to the working class. It may, however, occupy a very important position after the election, because it is not improbable that it will hold the balance of power between Fianna Fail and the various parties aligned behind the present Government. Its decision in that event would undoubtedly be influenced by the class of Labour member elected. The present leader of the party, Mr. O'Connell, T.D., is a national school teacher of moderate views who would hardly be happy in the same boat as Mr. de Valera's followers unless he could definitely decide the course it was to take. His dilemma is indeed that of all reasonable and intelligent voters because, as Mr. Desmond Fitzgerald, the Minister for Defence, has recently pointed out, the Irish people have a perfect right to change the existing constitution in any way they like, and could even remove the oath clause in the Treaty by denouncing the Treaty, but in that event the British would have the right to assert any powers they had before the Treaty, and a nation which broke a treaty could not expect the goodwill or moral support of the world. Moreover, the man in the street is perfectly well aware that if Mr. de Valera obtains a majority in the Dail, his Government will not be in power for two months before the hedgerow heroes—who have diplomatically disappeared since the Military Tribunal was set up—assert their authority by their usual methods of the threat and the gun, and Mr. de Valera, as he has always done, will toe the line and

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do what he is told—if indeed he is not unceremoniously kicked out—and people of his Kerenaky-like temperament usually are. The real intentions of the Irish Republican Army are clearly indicated in a document recently captured and published by the Government, which counsels a suspension of drilling and violence pending the general election, and calls on its members to wait and to feel confident. It is obvious that the present policy of the extreme element is to lull the moderate voters into a sense of false security, so that they will vote for the Fianna Fail party, and to renew their own activities if and when Mr. de Valera is returned to power. This policy is also dictated by the fact that the Military Tribunal set up under the Constitution (Amendment) Act* has begun to function and is discharging its task with justice and expedition. Its sentences have been reasonable, and its general conduct inspired by the simple rule that the innocent shall not be convicted and the guilty shall not escape; in fact it has administered the law without fear or favour, and, as Captain Redmond cogently pointed out in the Dail, people who claim to be soldiers cannot object to being tried by soldiers. In several cases those brought up for trial have confessed the error of their ways and have been released on their own undertaking not to take part again in illegal organisations. The only severe sentences so far inflicted were those of five and three years imprisonment on the brothers Gilmore, two typical young fanatics, who were convicted of assisting in the foundation of an illegal military force and of being in possession of arms and ammunition—namely, the large cave dump of military stores found near their house at Kilakee in the Dublin mountains. The attitude of Sinn Fein, Miss Mary MacSwiney's organisation—which is now as dead as a door nail and merely playing at politics—towards the election is quite simple as it will neither nominate candidates nor permit any of its faithful few to vote. As it is still naive enough to believe in the existence and

* See *The Round Table*, No. 85, December 1931, p. 142.

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the *de jure* rights of the Second Dail (which ceased to exist in 1922) it is naturally difficult for anyone to take it seriously. No one has yet explained what will become of the true republican government when the last member of the Second Dail joins the great majority. The strength of the parties at the dissolution was as follows :—

<i>Government Bloc</i>		<i>Opposition Bloc</i>	
Cumann na nGaedheal ..	65	Fianna Fail..	.. .. 56
Independents ..	11	Labour ..	.. .. 10
Farmers ..	6	Independent Republican ..	1
Independent Labour ..	2		
National League ..	1		
	—		—
Total	85		67

During the recent session of the Dail the Government were forced to introduce a supplementary budget, owing to an estimated deficit in tax revenue of £900,000. The greater part of this sum is caused by a fall in the revenue from the duties on liquor, which is partly due to a decline in consumption and partly to trade factors. To meet this deficit, income tax has been increased by 6d., which still leaves our standard rate 1s. 6d. in the pound below the rate in Great Britain, and the tax on petrol has been increased by 4d., bringing it up to the British rate. New tariffs have also been imposed of 20 per cent. on harness leather, 2s. 6d. per hundredweight on oats, and 6s. per hundredweight on oatmeal. The change in the tariff policy of Great Britain has necessitated the passage of an Act giving the Government power to impose customs duties to prevent dumping without going through the ordinary legislative procedure, as it is anticipated that foreign manufacturers who have prepared goods for the English market on which an English tariff has been imposed, are likely to divert them here. A heavy tariff on foreign bacon, ranging from 50s. per hundredweight on bacon not exceeding 30s. per hundredweight in price to 5s. per hundredweight on bacon not exceeding 75s. per

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hundredweight in price, has already been imposed under the Act, but it does not apply to bacon imported from the British Commonwealth. This tariff was rather unexpected, as the whole question of a tariff on bacon has been recently referred to the Tariff Commission. Mr. Hogan, the Minister for Agriculture, who is notoriously opposed to tariffs, stated recently in the Dail that we were forced to impose high tariffs in order to save ourselves from the bankrupt sales of countries who have been brought to bankruptcy by high tariffs, and that the only permanent hope for the world is less protection and more free trade. He pointed out that if all imports of agricultural produce were now stopped or prohibited we should still have an export surplus of close on thirty million pounds' worth of agricultural produce which our home market cannot absorb.

The triennial election to the Senate, which took place in December, proves that this institution has now become little more than a political waste paper basket in which each party is gently depositing its hangers-on. Not more than eight of the twenty-three newly elected Senators could by any stretch of the imagination be considered as coming within the qualification for membership of the Senate prescribed by the constitution, namely, persons "who have done honour to the nation by reason of useful public service or who because of special qualifications or attainments represent important aspects of the nation's life." Party political service is now apparently the sole qualification for election, and the Senate is little more than a second-hand edition of the Dail. This result is greatly to be regretted, but it was really inevitable when the arrangement by which the Senate is elected, by the Dail and Senate voting together by proportional representation, came into force. The recent election was also remarkable, because one Senator of the Government party canvassed not wisely but too well for a friend, and so upset the nice adjustments of the party machine that a prominent

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Government candidate, who is also a southern newspaper proprietor, was not elected. The zealous canvasser—who is in fact the Lord Mayor of Dublin—subsequently made the *amende honorable* by resigning his own seat in favour of the defeated journalist, who was thereupon elected without a contest.

II. THE SHANNON MUDDLE AND OTHER MATTERS

THE public mind is quite properly agitated over the recent revelations concerning the management, or rather mismanagement, of the Shannon hydro-electric scheme. The amount of money expended on the scheme to date is £8,509,515, of which £5,745,130 was for development work, and £2,764,385 for the work of the Electricity Supply Board. The original intention was that the money so advanced should be repaid out of revenue and that profits should be applied in reduction of the cost to the consumer. The Board as originally constituted consisted of a chairman, a managing director, and three part-time members representing commercial interests. Last summer the managing director, Dr. T. A. MacLaughlin, who first suggested the scheme, had to resign his position because of differences with the Government on major matters of policy.* One of these matters was the question of the price charged for current. It soon became public that the financial affairs of the Board were in a state of first-class muddle and that a firm of auditors had been called in to overhaul and prepare the accounts, which had not been submitted to the Dail as required by Statute. During November the Board announced an increase in the price of current, varying in accordance with certain conditions from 12½ per cent. to 25 per cent. The reason given for this change is that the prices previously fixed were too low to be economic. This drastic alteration has naturally

* See *THE ROUND TABLE*, No. 84, September 1931, p. 865.

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led to some very strong public criticism. Since the increase was announced, the annual reports and accounts of the Board for the year 1929-30, and the comments of the auditors thereon, have been published and have increased the public uneasiness concerning the whole matter. It is clear that the system of accountancy adopted by the Board at the commencement of its activities was most unsatisfactory, and though there is no suggestion of dishonesty, there is overwhelming evidence of inefficient control. Some of the accounts seem to have been in a hopeless condition; dockets and vouchers were inaccurate and often lost or mislaid. It must, of course, be said that during this period the Board was engaged in intense activities. Dublin, Limerick, and 98 other towns were linked to the system during the year; the electricity undertakings of 15 local authorities and 16 private concerns were acquired and the Dublin tramway load was secured. The number of consumers was increased by over 50 per cent. The deficit for the year amounted to £38,199. The figures, as such, throw virtually no light on the economics of the scheme. They have no bearing on the all-important question of the price charged to the consumer, and are valuable only in so far as they provide partial information with regard to the scheme's financial development. The vital year will be the present one, when the whole concern will approach normal running conditions, and it is to be hoped that the accounts for the period will be forthcoming without undue delay. The commercial members of the Board, one of whom is a trained accountant, cannot escape their share of blame for the muddle, and it is remarkable that they have retained their seats on the Board in spite of the declaration of Mr. McGilligan, the Minister for Industry and Commerce, that he was prepared to accept their resignations. The Board has now at last engaged the services of an experienced accountant from the electrical industry, who will no doubt prevent a recurrence of the confusion and let us know clearly how matters

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stand. Meanwhile, the public is naturally beginning to ask whether the whole Shannon scheme is not a white elephant. Last summer the Dublin steam power station had to be operated in order to supplement the available water power, and, as the load increases, it is obvious that both the Cork and Dublin power stations will have to be used, because it is extremely doubtful if the Shannon water power can be developed any further on an economic basis. It was urged that the Shannon scheme would materially reduce the imports of coal into the Free State. Ireland normally imports 4,500,000 tons of coal per annum, but steam stations giving the full output of the Shannon scheme would require less than 100,000 tons per annum, or only 2½ per cent. of the total imports. In fact the actual saving is nil, because the imports of coal have increased since the Shannon scheme started, and will probably continue to do so. It is apparently a fact that at the present prices of fuel, freights, and electrical machinery, an alternative scheme on a steam station basis could be provided, feeding a network over the whole of the Free State with current in a far cheaper and more reliable manner than the Shannon scheme can do at the prices now being charged for current. The country as a whole is paying more for its electricity than it would have paid if there had never been a Shannon scheme; it is paying very considerably more than it would have paid if even a small part of the money spent on Shannon hydro power development had been spent on an alternative system of supply. It is to be hoped that this situation will not be permanent. If it is, this generation will gain no advantage from the capital expended on the scheme and will probably want to know why it was ever undertaken.

A more satisfactory electrical development is likely to result from the Drumm battery train,* which had an official

* See THE ROUND TABLE, No. 76, September 1929, p. 834; No. 81, December 1930, p. 160; and No. 82, March 1931, p. 413.

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trial early in December, on which occasion Mr. Coombe and a distinguished party, including several other members of the Government, travelled from Westland Row to Bray and back. The fifteen-mile journey was made in 24 minutes, and a speed of 45 miles an hour was reached. Adjustments of the motor can raise the speed to 60 miles an hour. The train consists of two coaches for suburban traffic, and the charging apparatus at the two termini is so arranged that, as soon as the train stops, charging automatically begins and automatically ceases when a sufficient charge has been delivered. The company which controls the patents claims to be satisfied on the question of the battery's life, lightness, space, cost and durability under service conditions. If it survives the present tests under ordinary conditions of train service, then our railways will be able to avail themselves of electrification without having to incur the heavy initial expenditure which the installation of an overhead cable or a third rail equipment would necessitate. Apart from other advantages, this would mean an appreciable reduction in operating expenses, particularly on branch lines where the competition with road transport is most felt.

The Government have now introduced their two long-promised Bills to deal with the whole transport problem.* The Road Transport Bill gives the Minister for Commerce control over road transport. It provides that every passenger vehicle must be licensed by the Minister for Industry and Commerce and must work under the Ministry's conditions. Inefficient services may be terminated and licences refused to new applicants. Furthermore, an attempt to produce order out of the present chaos will be made by the establishment of traffic zones. The Railways Bill will allow the Great Southern Railway Company, with the Minister's sanction, to modify or suspend services on small or unprofitable lines, to extend its own road services without the present restrictions and costs, and to make

* See THE ROUND TABLE, No. 83, June 1931, p. 631.

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working arrangements with other road services. These provisions will enable the railway to meet its competitors on something like level terms. The operation of the two Bills ought to secure for the public an improved and more economic system of road transport without any increase of costs. The solution of the transport problem, difficult elsewhere, is in the Free State complicated by many special features. Physical and economic conditions are alike unfavourable to the proper development of transport facilities unless tremendous care is exercised to prevent the unnecessary duplication which has been proceeding unchecked for the last ten years. The small size of the country and its deeply-indented coast line provide no scope for the long haul which is the most remunerative form of railroad transport, and the fact that the country is predominantly agricultural and pastoral, and sparsely populated, with its chief centres of population on the coast, where its principal industries are also situated, deprives the railroads of heavy traffic. It is not therefore surprising to find that the bus passenger traffic in 1929 exceeded that on the Great Southern Railway. The dividends of that company have now almost reached the vanishing point. Last year its net income dropped to £825,058, the dividend of one per cent. on the ordinary stock was not earned, and in the present year the directors have postponed consideration of the payment of a preference dividend until the final accounts are available. It is obvious that when the new Bill becomes law many of the smaller lines will be closed. But more than this is necessary. The problem of wages, still paid on an extravagant scale, will have to be tackled, and the whole method of a system accustomed to years of monopoly drastically altered to suit public needs and convenience.

Another important problem—probably the most important problem of all—is that of the Housing Bill which the Government introduced in November.* Its gravity is

* See THE ROUND TABLE, No. 77, December 1929, p. 136, *et seq.*, and No. 85, December 1931, p. 152.

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proved by the awful fact that there are in Dublin alone 65,000 single room tenements, that 3,370 of those rooms house four persons, and 1,070 of them seven persons. It is calculated that it will take ten years and cost £7,000,000 to remedy this situation. The new Bill is designed mainly to provide for the clearance of these insanitary areas. It does not cut off assistance for the re-housing of the ordinary better-paid working classes but its object is to produce conditions in which they will not have to rely solely on local authorities or on subsidies for the provision of houses. When introducing the Bill, Mr. Richard Mulcahy, the Minister for Local Government, pointed out that since 1922 the Government had provided for the building of 24,566 houses, that State grants amounting to £2,550,000 have been made available, £6,000,000 approximately has been provided by private enterprise, and £2,500,000 by local authorities, making a total of approximately £11,000,000. The efforts of the Local Government Department had also reduced the cost of building from 15s. per square foot in 1922 to 9s. 4d. per square foot in 1930. Apart from the provision of houses, the Bill will give local authorities power to make a complete clearance of unhealthy or dangerous buildings, to improve areas in which total demolition is not warranted, and to acquire derelict sites. It has recently been suggested that the proceeds of the sweepstakes might well now be diverted from the hospitals to the assistance of housing finance. Such a step has much to recommend it, for the hospitals are now beginning to suffer from an embarrassment of riches, and if the slums were eliminated we should be striking at the roots of our physical and moral ills, and proving once more that prevention is better than cure.

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February 1932.

CANADA : THE RAILWAY PROBLEM

I. THE ROYAL COMMISSION

THE recent appointment of a Royal Commission to investigate and report on the railway situation in Canada has brought to the fore the whole question of the financial and operating condition of the two great systems and the several minor ones. Accumulated difficulties have been accentuated by the existing economic depression. More than once in the not distant past the peculiar problems of the Canadian railways have demanded careful examination. Some radical changes were made; some lessons were apparently learnt. But still there are fundamental problems remaining to be solved, while some of the lessons taught by the pressure of heavy losses were later forgotten in the days of prosperity.

The Commission was appointed by an Order-in-Council of November 20, 1931, on the advice of the Select Standing Committee on Railways and Canals of the House of Commons, which in turn followed a suggestion made by Sir Henry Thornton, president of the Canadian National Railways, in his evidence before that Committee.

There are seven members of the Commission, of whom five are drawn from different parts of Canada, representing both expert and non-expert opinion, and two are outside advisers. The members are the Rt. Honble. L. P. Duff, Judge of the Supreme Court of Canada (chairman); Lord

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Ashfield, chairman of the London Underground Railway; Mr. L. F. Loree, president of the Delaware and Hudson Railway; Sir Joseph Flavelle, of Toronto, the distinguished financier and chairman of the new board of directors of the Grand Trunk Railway that was appointed in 1921; Mr. Beaudry Leman, general manager of the Banque Canadienne Nationale and a former president of the Canadian Bankers' Association; Dr. Walter Murray, president of the University of Saskatchewan; and Dr. Clarence Webster, one of the leading public men of New Brunswick.

The terms of reference give ample latitude to the Commission and indicate that, although their primary concern is with railways, the Commissioners must bear in mind the close relation between rail and other forms of transportation. The terms read as follows:—

That the Commissioners inquire into the whole problem of transportation in Canada, particularly in relation to railways, shipping and communication facilities therein, having regard to present conditions and the probable future development of the country, and report their conclusions and make such recommendations as they think proper.

At the first meeting of the Commission, held on December 4, 1931, in Ottawa, statements were made by the Minister of Railways and the presidents of the Canadian Pacific Railway and the Canadian National Railways. The Commission then made a tour of the West, after which they returned to Ottawa and heard evidence from officials of the railways. They then visited the maritime provinces, and later the central provinces. On the long journeys to and from the West the commissioners were accompanied by the chief operating, technical and accounting officers of both railways, with whom they were in almost constant conference.

It is probable that the report of the Commission will be presented early in the spring. The fact that some of the

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sessions have been conducted behind closed doors has caused some criticism, but wherever the Commission went ample opportunity was given to anyone who wished to convey his views to do so in public or private hearings. There are, moreover, obvious disadvantages in premature publicity.

II. THE HISTORY OF THE RAILWAYS

FROM the earliest days of settlement in Canada, transportation has been one of the vital problems. Since most of the first settlements were made on the many rivers and lakes, water was almost exclusively used for communication: indeed, it was because of this readily available mode of transport that settlements were thus placed. Roads were early cut through the forests, but they long remained crude in the extreme and were only used as supplementary to the water system. In the first decades of the nineteenth century the main hope of opening the country for colonisation and commerce seemed to lie in rendering the rivers and lakes practicable for through communication by building canals around the rapids, and thus obviating the need of arduous "portaging."

The first railways in Canada followed the same line of development, being intended as no more than portages around the principal rapids—such as those on the Richelieu and Niagara Rivers. These short railways, while involving a transhipment, could be built more cheaply than canals. The first railway of this type was completed in 1836 and was followed by similar ventures, but by 1850 there were only 66 miles of rail in operation in Canada. After that year progress became rapid, and railways were built as complete routes, instead of being supplementary to waterways. Railways became one of the chief interests of speculators, and groups of financiers vied with each other to secure charters. In the 'fifties the remarkable total of 2,000 miles was added to the mileage in operation, being largely owned

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by the Great Western (from Toronto to Windsor and Lake Michigan) and the Grand Trunk (from Portland, Maine and Rivière du Loup to Sarnia and Detroit) together with a number of smaller companies in both the Province of Canada and the maritime provinces.

The formation of the Dominion of Canada in 1867 by the federation of the provinces of Canada (Ontario and Quebec), Nova Scotia and New Brunswick introduced a new element into the development of railways. On the one hand the union of wealth and government promised to render feasible the large railway projects that all the provinces favoured ; while on the other hand it was clearly necessary to establish such improved communications as would make the union a reality. This too applied not only to the members of the original federation, but also to those additional provinces the inclusion of which was contemplated from the first. In general the situation called for lines stretching east to the Atlantic and west to the Pacific. The first was part of the original agreement. The Dominion Government was to take over some 350 miles of rail in New Brunswick and Nova Scotia and build a through line to connect the maritime provinces with those of central Canada. This line was completed by 1880 from Halifax and St. John to Quebec, and included not only the maritime mileage mentioned above but also the former Grand Trunk line from Rivière du Loup to Quebec.

The western arm of this great stretch was also made imperative by political considerations. As has been mentioned, it was hoped that the original federation would soon be enlarged so as to take in the vast area to the west of Lake Superior as far as the Pacific coast. The prairie section of this was simply the preserve of the Hudson's Bay Company, but the part west of the Rocky Mountains was an organised colony. In order to induce British Columbia to join the Dominion as a province it was agreed in 1870, amongst other things, that a railway to British Columbia should be begun within two years and completed

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within ten. This promise, which may well be regarded as courageous now, was widely regarded as mad then. Apart from a population of some 36,000 in British Columbia there were little more than fur-trading posts in the territory over which the railway was to be built. Traffic of any paying quantity must therefore come from rapid immigration, and it was questioned whether there would be any large movement into what was widely thought of as an inhospitable land. The answer to these doubts was the force of political necessity, eking out with faith and hope. The shortest routes to both east and west were through the United States, but it was strongly felt that there must be communication from one part of Canada to another through her own territory. To some extent this meant a defiance of geography, for railways had to be built for thousands of miles along a narrow strip of Canadian soil, instead of making comparatively easy connections with the American lines. Such connections would have meant not only enormous savings in construction and upkeep, but also obvious advantages for commerce. Rather, however, than accept the political implications of this dependence on another country, the Canadian Parliament was prepared to face the expense of forcing into east and west channels a traffic that would have otherwise tended to flow north and south.

The early efforts to carry out the agreement to build a Pacific railway met with small success, and little was done before 1880 beyond the construction by the Dominion Government of some links in a chain that was to make use of waterways and existing railways. In 1880, however, an agreement was reached with a group of experienced railway men to build the line from Montreal to the Pacific coast in British Columbia within ten years. This group later became the leaders of the Canadian Pacific Railway. Being given the 710 miles of road under construction by the Government, they would be required to build some 1,900 miles. The company was presented with \$25,000,000,

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25,000,000 acres of land, exemption from duty on construction materials, exemption for twenty years from taxes on land, and other privileges. Construction was pushed ahead with great energy, and by the beginning of 1886 the first trains were running.

The completion of the first transcontinental line marks a milestone in Canadian history, as well as in the development of Canadian railways. The optimism of its supporters seemed to be justified when the Canadian Pacific Railway soon transported thousands of settlers to take up land on the rich soil of the western prairie. British Columbia had been saved for the Dominion, and the whole west was becoming Canadian in reality as well as in name. This first flood of settlers to the great western area led also to a belief that the population of Canada would continue to grow at the same speed, and that the Canadian west would develop in the same way and to almost the same extent as the west of the United States had done.

The first fifteen years of this century saw the planning and completion of two additional transcontinental lines. The Grand Trunk, which had long been operating successfully in central Canada, was anxious to share in the profits arising from the development of the west, and from the advantages to be derived from long hauls. The company, therefore, proposed to the Dominion Government that it should build a line from Chicago, its western terminus, via Minneapolis to Winnipeg and thence to the Pacific coast. This was rejected on the ground that too much of the proposed line would be in the United States. The company then offered to build east from Winnipeg to North Bay (in northern Ontario). Finally, in 1903, the Government induced the company to build a Grand Trunk Pacific Railway from Prince Rupert on the Pacific to Winnipeg; the Government, for its part, to build the National Transcontinental from Winnipeg to Moncton (New Brunswick), thus providing a second transcontinental line in Canadian territory. The Government would then rent

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the National Transcontinental to the company for fifty years, for the first seven of which no rent would be paid, and for the remainder of which 3 per cent. of the cost would be paid as rent. The Government would further guarantee the interest on the bonds of the Grand Trunk Pacific up to 75 per cent. of the cost of construction. The company accepted, though with some reluctance, and construction was completed before the war. The cost of construction of both divisions of this line was high.

The third transcontinental line, the Canadian Northern, grew out of the enterprise of two able and resourceful railway builders, Sir William Mackenzie and Sir Donald Mann, who, beginning with the purchase of the 125-mile Lake Manitoba Railway in 1889, gradually added to this by further purchase or construction until an integrated system extended from Vancouver to Montreal. Unlike the Grand Trunk Pacific and National Transcontinental (the two sections of the one transcontinental line) the Canadian Northern was built at low cost, with, of course, the expectation of gradual improvement. While getting the usual help from Governments, the method of financing the Canadian Northern was otherwise unusual. Provincial guarantees—then Dominion guarantees and subsidies—were secured. When the company became better known large amounts were raised by the issue on its own credit of so-called perpetual debenture stock. No money was raised by the sale of common stock, which was issued to the promoters and gave them control.

These two later lines to the Pacific were, therefore, built independently and in the expectation of competition. In 1902 and 1903 negotiations were conducted with the object of securing the completion of a single joint transcontinental line, on the general plan that the Canadian Northern should build in the west and the Grand Trunk in the east. No agreement was reached, however, and the two complete lines were begun. This decision was more responsible than any other one factor for the later grave problems.

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There was, of course, need for more construction in the west after the completion of the Canadian Pacific. To a limited extent, moreover, construction had to run ahead of settlement, of which it was a necessary condition. But unfortunately optimism rather than wisdom was the guiding force, and the Government adopted the policy of encouraging the two new transcontinental lines. Since the construction of railways in Canada has always been subsidised, in one way or another, by provincial and federal Governments, the policies of private railway corporations have directly affected not only their shareholders but the taxpayers. Given wise direction, it has been to the advantage of the people as a whole to finance the construction of a satisfactory railway system ; but in the period in question the point was reached and passed when the returns to the people in railway services equalled their financial commitments. In an open letter to the Prime Minister, Sir Joseph Flavelle, then (1921) chairman of the board of directors of the Grand Trunk, wrote as follows regarding the situation which he and his colleagues had shortly before been called upon to face :

There would be no acute railway problem in Canada to-day if, in 1903, Parliament had refused the proposal to build the National Transcontinental line from Winnipeg to Moncton ; if it had refused to grant a charter to the Grand Trunk Pacific to construct a railway from Winnipeg to the Pacific coast, and had refused the builders of the Canadian Northern further financial assistance, except as the Western Division of the Grand Trunk system, carried through to the Pacific coast. If the Grand Trunk and Canadian Northern Companies had been told they must come together and constitute a second transcontinental line the country would not have been called upon to face the present gravely serious situation, while a powerful corporation, with a serviceable railway from ocean to ocean, owned and operated by private capital would, with the Intercolonial and Canadian Pacific Railways, have given the needed transportation facilities for the present, and reasonable future requirements of Canada.

By 1915 the total mileage in operation in Canada had risen to 34,882. This equipment, which assumed a steady

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increase of population and commerce, proved to be of embarrassing magnitude when the financial stringency of 1913 was followed by the war of 1914. Although the economic conditions of 1913 led to unemployment and difficult months for business, it was the war which suddenly and unexpectedly shut off the supply of immigrants to Canada. The total number of arrivals in 1913 was the highest ever reached, 402,432 ; in 1914 it was 384,878 ; in 1915, 144,789 ; and in 1916 sank to 48,537. Such a check to the growth of the country could hardly have been foreseen. The loss of immigrants meant a blow to the railways in the west, from the loss not only of revenue in original transportation, but also of the continued business which they would have brought. Since the war, owing in part no doubt to the advance of social legislation in European countries and in part to the new Canadian policy of restricting immigration, the numbers of immigrants have never risen to half of the 1913 figures.

III. THE CANADIAN NATIONAL SYSTEM

THE war caught the railways in the process of completing a policy of expansion and greatly aggravated existing sources of danger. As has been indicated, all the Canadian railways represented public investment in some form. The Canadian Pacific had by this time long since ceased to be a drain on the public purse, though this was partly accounted for by the empire that it had gained in its original grant. The railway was, however, more than paying its way. The Grand Trunk proper was suffering from two difficulties—absentee directors and its guarantee of, and cash advances to, the Grand Trunk Pacific. The management had been greatly improved under a former American railway manager, Mr. C. M. Hays (who was lost in the *Titanic*), but the final control was in England, where most of the stock was held. Wisely or no, the

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Grand Trunk Pacific had been constructed in permanent form, which was intended to make for low operating costs, but the investment proved to be too high for the available traffic. The Canadian Northern Railway was still incomplete at the outbreak of war, and was moreover faced with unexpectedly expensive construction in the Rockies. These two later transcontinentals, as not a few observers (including Laurier's Minister of Railways) had foreseen, were cutting each other's throats.

To keep the weaker railways going the various Governments had poured out money in the form of direct subsidies, made land grants and guaranteed bonds. Only from an operating point of view could most of the Canadian railways be regarded as private companies. But the Governments had thus heavily invested because railways were essential to national development and private capitalists were not willing to take the entire burden of establishing and operating railways under comparatively pioneer conditions. When the war brought an acute crisis to the Canadian Northern and Grand Trunk Pacific, however, the Canadian Parliament began to consider whether it would not be better to take over the management as well as the financial responsibility of those roads which were in distress. The rise in wages and materials, the almost entire cessation of immigration, and the fact that foreign investors were concerned with their own problems made the war years serious for the Canadian railways, already suffering from the effects of over-optimism.

The Canadian Government had for some years been the direct owner of railways, the Interecolonial of 1,592 miles, the National Transcontinental of 2,003 miles and the Prince Edward Island railway of 279 miles, making up no mean total. In 1916 a Royal Commission was appointed to report on the whole problem of transportation—the status of the three transcontinentals, the reorganisation of any of the systems, including their possible acquisition by the State, and any other matters that seemed relevant.

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The Commission consisted of Sir Henry Drayton, chairman of the Board of Railway Commissioners, Mr. W. M. Acworth, an English authority on railways, and Mr. A. H. Smith, of the New York Central Railway. A majority report was presented by the first two which was of great significance in the history of Canadian railways.

In their report the Commission found that the Canadian Pacific Railway was the only one able to meet its obligations to the public, and that this success was due partly to able management and partly to generous aid at its inception. On the other hand they found both the Grand Trunk and the Grand Trunk Pacific to be bankrupt. Whereas the former had paid out 36 million dollars in dividends in eleven years it was unable to put its lines and rolling stock into proper condition. By a majority recommendation the Commission advised that the Grand Trunk, the Grand Trunk Pacific, the Canadian Northern, the Intercolonial and the National Transcontinental be owned by the Government and operated by a board of trustees constituted by Act of Parliament and incorporated as the "Dominion Railway Company."

These recommendations were in general followed. The Canadian Pacific was left as a private company. Following an Act of Parliament, the Canadian Northern was acquired on October 1, 1917, by the payment of ten million dollars for the capital stock. In March, 1919, the Minister of Railways was appointed as receiver of the insolvent Grand Trunk Pacific, and shortly afterwards the road was taken over by the Government. The Grand Trunk was acquired in 1919 by an Act of Parliament, which provided for the appointment of a board of arbitration to determine the value of the capital stock of the company, with the exception of the 4 per cent. guaranteed stock. The board as appointed consisted of Sir Walter Cassels (chairman), Sir Thomas White for the Government, and Mr. W. H. Taft for the company. A majority report was signed on September 7, 1921, by the two first-mentioned members, who found no

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value in the first, second and third preference stock or in the common stock of the Grand Trunk. The arbitrators commented, as had the members of the 1916 Commission, on the fact that dividends had been paid when the other obligations of the company made such a course unjustifiable. Sir Thomas White's conclusions may be quoted:

(1) The actual earning power of the Grand Trunk Railway Company of Canada, before, during, and since the war, and, so far as can be estimated, for the future, does not justify the assumption that any profits would, from the date of the acquisition by the Government of the preference and common shares, viz., May, 1920, ever have been available for distribution to the holders thereof, after providing for the contingent liability of the company in respect of Grand Trunk Pacific securities guaranteed by the company and dividends upon the "guaranteed stock."

(2) Having regard to its own continuing heavy deficits, the necessity for making provision for deferred and extraordinary maintenance and capital construction, and its heavy liabilities in respect of securities of the Grand Trunk Pacific Railway Company bearing its guarantee, the Grand Trunk Railway Company of Canada, but for the financial support of the Government since May, 1920, must have been forced into a receivership.

Upon these conclusions I find that the preference and common stock of the Grand Trunk Railway Company of Canada has no value.

In these circumstances the Government saw no reason for taking any action, whether or not it would have been good policy to do so, in the way of making a "compassionate allowance," which the majority arbitrators had intimated was a question for the Government and not the board to decide. It was apparently felt by the Government that for a number of years the company had continued to pay large sums in dividends to the shareholders regardless of the needs of the property and of the company's obligations to the Government. In respect of the three railways acquired, the obligations assumed by the Government amounted to about 936 million dollars. By January, 1923, when the Grand Trunk, the Canadian Northern and the Grand Trunk Pacific were incorporated in the Canadian National Railways, the direct cost to the Government had risen to about

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1,321 million dollars ; or, in other words, the Government had in the interval spent some 395 million dollars in improvements, extensions and the acquisition of additional mileage.

From 1923 onwards there have been two great Canadian railways—the Canadian National and the Canadian Pacific, with the former operating a somewhat greater mileage. In the years of prosperity before 1930 both companies added to their property in mileage, equipment and such contributory enterprises as hotels and steamships. The Canadian Pacific continued to pay handsomely, its operating profit being \$51,694,000 in 1928. The Canadian National, too, under its new and active management, was able to show an operating profit of \$49,558,000 in 1928, although its total capitalisation of \$2,074,585,000 made impossible an otherwise satisfactory balance sheet. In addition to its already large mileage, the Canadian National has become responsible for the operation of a line built by the Government, the Hudson Bay Railway, which has recently been opened to the port of Churchill. This line is intended primarily for the movement of grain, and large elevators have for that purpose been built at Churchill.

The economic depression of 1930, therefore, found both the Canadian National and the Canadian Pacific in process of completing large commitments, and in vigorous competition. The loss of revenue, which became increasingly serious, has gradually forced an economy of services and in some cases co-operation in place of competition. Both railways have made reductions in salaries and wages of 10 per cent. In June, 1931, the Canadian Pacific was obliged to halve its dividend in deference to a fall in profits of five million dollars between 1929 and 1930.

The Canadian National, less able from the nature of its composition and capitalisation to withstand the loss, showed a decline in net operating revenue from some 40 millions in 1929 to 16½ millions in 1930. It is generally felt that both railways are in such a condition that serious

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public consideration must be given to their future. Railway crises have more than once in the past been faced in Canada, and there is reason to believe that a general improvement in economic conditions would offer a large measure of relief. On the other hand, the pressure of present conditions has brought to the fore a desire to examine the problem of railways and transportation as a whole in Canada; and it may well be that lessons will now be learnt that will serve for good and bad times in the future.

IV. THE BASIC PROBLEMS

THE main strategic problem of transportation in Canada is a geographical one. The territory is not only vast in proportion to the population, but the bulk of that population is stretched along a comparatively narrow line of settlement in the southern parts of the Dominion. By their determination to provide a system of railways that would serve their needs without dependence on the United States, the Canadian people have set for themselves a fine national aim but a permanent economic difficulty. Great parts of the railways have been thrown across areas which at the time of construction produced little local revenue; and while in many of these the situation has improved by immigration and by local industrial and mining development, there still remain sections in which there is no immediate prospect of considerable settlement. An examination of railway and population maps of Canada and the United States will quickly reveal the peculiar Canadian problem. As has been shown before, for example, the Grand Trunk wished to build a transcontinental line that would follow the easy route south of Lake Michigan, but this was unacceptable to Parliament because it was not a Canadian route. Instead of this, all the transcontinentals were built to the north of Lake Superior, where construction was very expensive, and where there was little prospect of local revenue.

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Thus a Canadian system of railways presupposes a large machine for a small population. The total steam mileage in operation in Canada is 42,000, while the population is approximately ten million. The population per mile of railway in Canada is only 235, while in Great Britain it is 1,800, in France 1,235, in Germany 1,770, in the United States 480, and in Australia 220.

Given the problems arising from these general conditions, has wisdom been shown in the creation of the Canadian railway system as a whole ? Have we built to a greater extent than was wise or necessary ? Has the construction been economical and suited to the conditions for which the lines were required ? There can be little doubt that there has been overbuilding, dating from the fatal decision early in the century to add two more trans-continentals to the existing Canadian Pacific. As has been shown, efforts were made in 1902 and 1903 to prevent this but without avail. Both the Canadian Northern and the Grand Trunk have been defended against the charge of unwise expansion by the argument that each would have succeeded without the other ; but this is, of course, merely to say that their decisions to build separately after their failure to agree in the first place led to damaging competition. Nor can the Government of the day escape blame, for had they followed the advice of their more far-seeing members they would have refused the franchises and the subsidies without which the roads could not have been built. But it is easy to be wise after the event, whereas in the period in which these enterprises were started many prominent Canadians thought that the future of the west would be one of continued and rapid growth and that the three lines were essential to its development.

In some cases lines have been abandoned where traffic has not warranted all that were built ; yet the capital expenditure remains, and this is particularly one of the problems of the Canadian National, since the Canadian

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Pacific was able to plan a unified system. The cost of construction has varied considerably. Some of the lines were built in the belief that a high first cost made for low maintenance. Whether this be a sound principle or not, it has happened that one of the most striking examples of this—the National Transcontinental—is now one of the least used of the main lines. Could the Canadian railways be built again, there would no doubt be many changes, but since we must accept the legacy of the past as we find it, the present problem is to determine what are the measures best calculated to correct the mistakes of the past and ensure a more satisfactory future.

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THREE is inevitably much speculation as to the recommendations to be made by the Royal Commission. Without our entering on the dangerous field of prophecy certain of the issues may be examined.

At present private and State ownership exist in almost equal extent. It has been pointed out that operating costs would be appreciably reduced if the two great railways were in some way merged so as to avoid the waste involved in severe competition for a limited amount of business. Anything in the nature of amalgamation, however, would meet with wide disapproval, especially in the west and Ontario. The removal of competition would have obvious disadvantages for the customers of the railways; but an almost greater problem arises from the fact that either public or private ownership would have to be abandoned. Both of these, however, have considerable support, and any Government that felt it necessary to sponsor amalgamation would have to answer to an angry electorate in many districts. To turn over the whole railway system to private ownership would apparently mean in some form to give the Canadian Pacific a monopoly; and proud as Canadians are of this great corporation,

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few of them wish to see it—or any other company—in such a position of power. On the other hand, and in spite of the real achievements of the Canadian National in the face of almost overwhelming difficulties, there must be great doubt as to whether the public would be adequately served by a public company which had no competitor to keep it at its best. Moreover, there must always be anxiety as to whether such a company could be kept free from political influence with all its unsatisfactory concomitants.

If amalgamation seems unlikely, there remains the question of co-operation. In places the two companies carry on a competition that is unfruitful to both and, apparently, economically unsound. Although it seems logical that they should divide the country into "spheres of influence," and each do a profitable business within its own territory, this is not easy to arrange in detail. Many of the small competing lines are feeders for the main lines, and essential to their life. Further, the most profitable business that the railways do is in long freight hauls. This is best explained by a further quotation from the letter of Sir Joseph Flavelle to the Prime Minister in 1921 :

For purposes of comparison . . . the Grand Trunk system affords an opportunity to estimate the effect of short-haul traffic, which is . . . characteristic of the Canadian Pacific. The Grand Trunk Railway system, operating 4,775 miles of road, during the year 1920 moved 33,026,658 actual net tons, and were paid for the service \$80,686,623.00. The Canadian Pacific, operating 13,402 miles, moved 29,919,645 tons, for which they were paid \$143,878,185.00. You will observe that the Grand Trunk, moving 3,100,000 tons more freight than the Canadian Pacific, received in payment \$63,191,562.00 less for their services than that company. The greatest single fact in this connection is the fact that while the Canadian Pacific carried each ton an average of 463 miles, the Grand Trunk carried each ton an average of 212 miles. Or, stated in another way, the Canadian Pacific paid \$1.81 for each ton, while the Grand Trunk paid \$2.44 for each ton. This is what terminals tell us, and it is difficult to imagine how much per ton whether the freight is short hauled or long hauled.

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Since the creation of the Canadian National, that company has been enabled to take its share of the profitable long hauls; and it seems almost inevitable that some measure of apparent duplication must remain if both companies are to continue to do this part of the business. In some places, however, duplication has already been abolished by agreement; and it may well be that the Commission will recommend that this process should be carried further. One complication in this respect remains: the inevitable complaint that one or other of the companies is being sacrificed to the other. Any argument of this nature is particularly likely to develop from the fact that there is an unfortunate tendency for people to take sides as supporters of public or private ownership.

Another possible approach to the problem of reducing expenditure is to advise the lessening of expenditure within each railway. This would come under such heads as curtailment of luxury equipment (which has reached a high level on many of the principal trains), cessation of building both of new lines and of hotels and summer camps. Perhaps, too, it might involve the scrapping of minor (and even some major) lines which do not, and apparently cannot, pay their way. There is no doubt that the Canadian public is provided with luxury in travel that can with difficulty be reconciled with the economic obstacles against which the railways have to strive. Our rates are low, our standard of equipment is high, and the actual cost of maintaining the services is high. Assuming that the public would be unfavourable to any material increase in rates, can we maintain this expensive paradox?

There is evident need for the railway problem to be studied as a whole, and it is possible that the Commission may propose some machinery for this purpose. Even a purely advisory body might be of great value if it were composed of able men who could see the problem in terms of the country as a whole, and make recommendations to the still independent companies.

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Judging from their terms of reference it may be assumed that the Commission will to some extent consider the railway problem as inseparable from the problem of transportation as a whole. There are three main forms of transportation at the present time that compete in some degree. The canals, hope of the 'thirties, have received a new lease of life in the project for the complete canalisation of the St. Lawrence waterway. Already the canals enable boats of 14 ft. draught to proceed from Montreal to the head of Lake Superior. Apart altogether from the St. Lawrence scheme, the total cost of canals up to the end of March, 1929, was \$216,585,487—a very considerable total. If the St. Lawrence scheme should be carried through it would to some extent constitute an alternative route to the sea competitive with those of the railways. And such outlets have already been increased by the completion of the Hudson Bay Railway, which revived the old route long used by the Hudson's Bay Company. Roads have also come back into prominence as a means of through travel. The motor car and the motor truck have made heavy inroads into the passenger and freight traffic of the railways. Very considerable sums have been spent on roads by the provinces and smaller government bodies, and it is an open question whether the comparatively low taxes on motor vehicles do not make for an unfair competition with the steam railways. Local traffic has suffered particularly, but there seems to be an increasing tendency, generally, for both passengers and freight to "travel on rubber." Some railways in the United States have met this menace by themselves operating motor trucks in conjunction with their train services, but the possibilities of this have not yet been fully explored.

The fundamental problem is to transport a limited number of people and a limited volume of freight in the most satisfactory and economical way. But we are not starting *de novo*. The railways exist, and their expense of building cannot be reduced by taking thought. If road

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travel is cheaper, what will happen to the railways? Even in prosperous times one might pause to consider whether the present transportation system can stand the additional competition of a Hudson Bay route and the partial competition of a St. Lawrence waterway without the addition of considerably more business. The problem of transportation has always bulked large in Canada, but for the most part the problem has been to secure enough transportation. It seems that we have now got into an era of too much transportation—not too much, of course, for the business and pleasure interests of the people, but too much for the country to afford. Under the peculiar conditions prevailing in Canada it may be argued that to subsidise our transportation facilities is worth the price, but this is a dangerous avenue of thought unless it be followed with the greatest caution. There are already enormous sums sunk in railways, roads and canals. There is sometimes a danger that transportation may be regarded as an end instead of a means.

Apart from such over-building as may exist, and such unnecessary expense as may have been incurred, the causes of our present discontent may be examined under three main heads.

(1) The falling off of traffic consequent on the economic depression. This general problem has affected other railways than ours; for example, the railways of the United States are in many cases in financial difficulties. In 1928 the Canadian National had gross earnings of \$304,000,000, but in 1930 this figure was cut to \$250,000,000. The Canadian Pacific also suffered a heavy loss of revenue. The general slump in business readily accounts for the lack of traffic, but the marked reduction in the movement of grain has been a particularly serious factor. Clearly the effect of the depression on the railways is a problem beyond their control. The same cause is responsible for the loss of revenue in businesses of almost every character.

(2) Competition between the railways is, to some extent,

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a cause of loss of revenue that is within control. But, as has been seen, this can only be modified within limits. If, as is widely thought, a degree of competition is to the advantage of the customers of the railways, there must be some compromise. We cannot in this respect both eat our cake and have it.

(3) Finally, the competition between railways and motor vehicles is a serious problem. There are in Canada approximately 1,239,000 motor vehicles, of which 166,000 are motor trucks. This is a total only materially exceeded by the United States with 26,500,000. The motor car is no longer a luxury but a normal mode of travel, since in Canada there is an average of one car for eight persons. Motor buses, too, have secured a considerable business ; in some places electric railways have been abandoned because of the competition of buses, and in many districts the local traffic of the steam railways has suffered severely. Local train services have been reduced from lack of business, and recently a deputation from a suburban town, who were asking for increased train services, were told that they could not have trains in the winter if they insisted on using their cars in the summer. Everywhere in Canada good through roads have been built, and in the summer one can see endless lines of cars, many of them from distant American States, passing on the main highways. Part of this traffic has arisen only because of the motor car, but a portion of it is at the expense of the railways. Even more serious is the competition of the motor truck, since the carriage of freight is the most profitable part of a railway's activities. One sees trucks loaded with all manner of goods and covering great and small distances.

It has been often suggested that the motor vehicle competes unfairly with the railway, since the expenses of the latter are greater than those of the former. The solution offered is to make the motor vehicles pay for the roads and thus put the competitors on an equal footing. This solicitude, it may be noted, is not so much owing to a

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greater love of the railways as to the fact that they represent an enormous public investment, which is being endangered. There are, however, several objections to the apparently simple solution of heavier taxation. One is that the public would not like it in practice, however much they might approve of it in theory. Though they might gain indirectly through the improvement of the position of the railways, what they would chiefly notice would be more expensive motor transit without reduced rates on the railways. A second obstacle to change is the fact that much of the motor traffic is to and from the United States. This is particularly true of the tourist trade, and as this stands second amongst our industries, and is invaluable in redressing the balance of trade, it cannot lightly be endangered. But if the American cars which use our roads were not taxed, should the burden fall on the Canadian motorist? Thirdly, the main highways are provincial, while the chief public interest in the railways is federal. This brings us—as most important Canadian problems seem to bring us—to the disputed powers of Dominion and provincial Governments. Could they, or would they, co-operate in balancing the rights of motor and railway transport? The respective control of provincial and federal Governments over the water-power on the rivers used for navigation still seems to be unsettled, and the course of this dispute augurs ill for an easy settlement of the transportation question as a whole.

The personnel of the present Royal Commission assures a careful, detached and able study of the transportation problem in Canada. While it may be assumed that Parliament will give considerable weight to their findings, any action taken will presumably follow a debate in which many and conflicting views will be presented. The interests of various districts and groups are in some respects dissimilar, and if any radical recommendations are made by the Commission they must run the gauntlet of the usual parliamentary criticism. The wide interest that has been shown

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in the railway question, however, suggests a general desire to face realistically what is one of our fundamental problems, and, not without pride in past achievements, to attempt a solution of the particular aspect of the problem that comes in our day and generation.

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AUSTRALIA

I. THE FEDERAL ELECTIONS

IT is notorious that very few parties can survive a term in office during times of economic distress; this is particularly true of a Labour party, or for that matter of any party of reform. While times of depression are times of curtailment and retrenchment, the popularity of a party of reform depends on the measure of its advance towards more or less unattainable objectives, and its normal programmes are based on the expectation of buoyant revenues. Its supporters are not convinced by the most valiant record of orderly retreats, or even of positions barely held. These considerations apply with peculiar force to the Australian Labour party. Its whole theory of representation subordinates the individual to the group—the Minister is subordinate to the caucus, the caucus to the party organisation outside. To get from the party machine the flexibility that government demands in times of crisis is virtually impossible. It is not surprising, therefore, that the onset of the world economic depression should, in Britain and in Australia, have broken the Labour party in office. But few critics could have expected a collapse so sudden or so complete as has occurred in both countries in the last quarter of 1931.

Mr. Scullin's Ministry came into office at the end of 1929, supported by the largest single party in Australian political history, numbering 46 in a House of 75. Owing to internal dissensions within the party, the Ministry failed to keep its supporters together, and in little more than two years was driven to the country by a defeat in the House, inflicted on a deliberate vote. Mr. Scullin will muster no more than 14 supporters when the new House assembles in February, and will thus have lost some 70 per cent. of his

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following. When it is remembered that so recently as 1928 Mr. Scullin was returned as leader of an Opposition of only 31 against Mr. Bruce, some idea will be gained of the changes that have taken place in Australian opinion within three years.

The Labour Government was in trouble from the start. To begin with, it had only one real mandate from the electors—to maintain and improve the federal arbitration system; and a strongly Nationalist Senate was by no means willing to allow the Ministry to rewrite the Arbitration Act at its pleasure. But in truth the Scullin Ministry came into office on a wave of feeling almost entirely unrelated to the real task which lay before it—to take measures to meet the economic depression; and it was on those measures that it eventually came to shipwreck. Every fresh development in ministerial policy served only to split the party more hopelessly. The trouble began with the re-appointment of Mr. Theodore to the Treasurership, on the Prime Minister's return from the Imperial Conference, and before the action arising out of the Mungana charges had come on for hearing. That step cost the Labour party two Ministers, Mr. Lyons and Mr. Fenton, who went into Opposition, the former to become Leader of the Opposition. These two were followed in course of time by three other Labour men. Hard upon these events there followed, in February 1931, the Premiers' Conference at which were put forward the three proposals which have become notorious as the "Lang Plan," and Mr. Theodore's counter-policy, an instalment of controlled inflation. Mr. Lang proposed that no interest should be paid overseas until Britain brought Australian interest rates into line with the Anglo-American war debt settlement; that the interest on public internal loans should be reduced compulsorily to 3 per cent.; and that a currency based on production and governmentally controlled should be substituted for the existing bank-controlled currency. These proposals were summarily rejected by the Premiers,

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but Mr. Lang characteristically refused to abandon them, and the result was a feud between the New South Wales branch of the Labour party, dominated by Mr. Lang, and the federal Labour authorities, dominated by Mr. Scullin and Mr. Theodore. Mr. Lang's group attempted to coerce the Labour members from New South Wales in the Federal Parliament into supporting his views. Mr. Theodore's group replied by asserting that in defying the properly constituted federal committees Mr. Lang's group had forfeited its right to be considered part of the Australian Labour party. Five of the New South Wales Labour members of the House of Representatives, led by Mr. Beasley, eventually formed a kind of "Lang Cave," hostile to, and contemptuous of, the Government and actually holding the balance of power in the House, but unwilling for some time to strike the Government down at the risk of an appeal to the people. Meantime, finding "controlled inflation" unpopular, the Government had reluctantly agreed to the proposals now familiarly known as the "Premiers' Plan," involving a quasi-voluntary conversion of the Commonwealth and State debts, and a reduction in government salaries, wages, pensions and other adjustable expenditure. The acceptance of the latter part of this plan caused further dissensions in the Labour party, just as a similar issue was to split the British Labour party a little later. The Labour Governments had trouble with their own supporters in their respective Parliaments (there was said to be a majority of two only for the plan in the federal caucus), and the party organisations throughout the country were very hostile, especially in South Australia. A great many of the rank and file were inclined to the view that to accept the plan involved a betrayal of vital Labour principles, and that it was the clear duty of true Labour men to go out of office rather than take responsibility for such a policy.

In these circumstances, it can easily be imagined that the Prime Minister had no desire for an early appeal to the

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country. His position had been greatly weakened in Labour circles, and his record in office had not been such as to retain for him the large body of support from unattached electors which had been accorded him in 1929. His obvious dependence on Mr. Theodore aroused misgivings in many quarters, and so also did his vacillation on monetary policy. These misgivings were intensified towards the end of the year, when it became clear from ministerial pronouncements that, when the election did come, the Government would put forward political control of the currency as the main issue. The time was therefore very unpropitious for the Government when, at the end of November, Mr. Beasley announced his intention of moving for the appointment of a Royal Commission to enquire into allegations that Mr. Theodore was *inter alia* using unemployment relief works in his electorate (at the Commonwealth dockyard at Cockatoo Island and elsewhere) as a means of purchasing votes. It is said that this was a mere pretext—and certainly very little was heard of it during the election campaign—and that the attack was really launched because the Scullin-Theodore group seemed to be making headway in Sydney against the Lang group. The announcement just previously of an amalgamation between the State Savings Bank and the Commonwealth Savings Bank, on terms which would enable the former to make immediate and substantial payments to its depositors, was, for instance, regarded as a triumph for Mr. Theodore. Mr. Beasley pressed his motion, which was duly carried, with the support of the Opposition on November 25, and the Prime Minister advised the Governor-General to dissolve the House of Representatives. In granting the dissolution, Sir Isaac Isaacs took the opportunity of placing on record his understanding of the present constitutional position of a Governor-General in the exercise of the prerogative of dissolution. Formerly it was expected that the Governor-General would exercise his own discretion in the grant of a dissolution, and refuse a

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request for a dissolution from a Ministry defeated in the House if he thought it in the public interest to do so. In a letter replete with citation of authorities, Sir Isaac Isaacs explained that, in view of the present constitutional position of a Governor-General, as laid down at the Imperial Conference of 1926, he did not feel it his duty to exercise a personal discretion, but contented himself with taking the Prime Minister's advice. Sir Isaac Isaacs added that if he had had to exercise a personal discretion the result would have been the same. But he put it, in effect, that the Governor-General is to stand in the same relation to his Ministers as the King does to his in Great Britain, and that the King would in such circumstances accept ministerial advice. This declaration will probably become a definitive statement of the position of a Governor-General. This sort of thing is one of the by-consequences of appointing a distinguished constitutional lawyer and judge to be His Majesty's representative.

The Government determined on an early election, partly no doubt because it precluded Mr. Lang, and certain other vigorous opponents of the Ministry, from resigning their seats in State Houses in time to contest federal electorates. Polling took place on December 19, a little more than three weeks after the Government's defeat in the House. As usual, an election was held at the same time for the eighteen seats in the Senate (three in each State) whose occupants are due to retire in June, 1932. The Senate, it will be remembered, consists of six members elected from each State voting as a single electorate. Senators hold their seats for six years, and half retire every three years.

The Opposition parties had barely completed arrangements for consolidating their ranks. In order to bring in Mr. Lyons and his ex-Labour followers, and to compose certain other differences, the Nationalist party abandoned its name, and a new party was formed with the clumsy and rather misleading name of "United Australia party,"

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and with Mr. Lyons as leader and Mr. Latham as deputy-leader. (The "alias" party, Mr. Lang's journal calls it; many will regret that the opportunity was not taken to bring to an end the period of more or less "fancy" names and return to the name "Liberal," which grew up and became acclimatised in Australian politics and which stands historically for policies very close to those for which the United Australia party will doubtless become known.) Mr. W. M. Hughes, it may be added, after his abortive attempt to found an independent party of his own, came into the United Australia party. Between the United Australia party and the Country party fairly close co-operation was achieved. They did oppose each other in a few electorates, but nowhere where there was any real danger of losing the seat to Labour by a divided vote. The federal and the State (or Lang) Labour groups both nominated candidates in most of the New South Wales electorates, in a good many cases not so much with any expectation of success as with a view to testing the strength of the rival groups among Labour supporters. Each group also nominated its three candidates for the Senate election. In addition, the Lang group nominated a few candidates in Queensland, Victoria and South Australia, but this was for purposes of propaganda rather than with any expectation of actually winning seats.

Perhaps because the time was so short and the election so sudden, perhaps because the people have had rather a surfeit of plans and programmes in this troubled year, the election issues were never very clear or distinct. For the best of reasons no party leader was willing to adumbrate a detailed course of future action. The main policy speeches were, of course, those of the Prime Minister and of Mr. Lyons—an odd juxtaposition, for not only had the two men fought the last election from the same platform, but they probably think more alike in politics than almost any other two members of the House. Mr. Scullin put forward the achievements of the Ministry as the principal

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ground for returning it to office. Mr. Lyons treated the record of the Ministry as his principal ground for urging the electors to reject it. The one positive policy which the Labour party put forward was a change in the monetary system. The Commonwealth Bank—or so it seemed from the rather vague terms in which the policy was discussed—was to become, as the Labour party has always wished it to become, a trading bank in active competition over the whole range of banking business with the private banks; a distinct central bank was to be created and if the intentions of the Ministry were rightly to be gathered from their previous banking proposals, the central bank was to be subject to political control. At any rate its immediate function was thought of by Mr. Scullin in terms of “releasing” sufficient “credits” to put all the workless back into employment.

The policy sketched out by Mr. Lyons was even less precise than the Prime Minister's. He traced the dissensions within the Labour party and the vacillations of ministerial policy; he invited the electors to follow Britain's lead and reject a party which had fallen into discredit through failure to deal with economic necessities. He made no promises, he asked only for the return of a Government which would command confidence at home and abroad. He pleaded, like Mr. Ramsay MacDonald, for a “doctor's mandate.”

As the campaign wore on, the United Australia party leaders introduced a little more definition into their policy. Opponents began to recall the stand taken by Mr. Bruce and Mr. Latham in 1929, and to predict the abandonment of the Commonwealth arbitration system if Mr. Lyons were returned to power. Mr. Latham promptly disavowed any intention of repeating the experiment of 1929, and though (like the Labour party at the preceding election) his party was determined to increase the sphere of conciliation in the arbitral system, he declared that they would not introduce any major change without first consulting

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the people at a referendum. Ministerialists also raised the cry that the tariff would be in danger from a Lyons-Latham Ministry. This attack was parried by a declaration that the United Australia party was definitely protectionist, but that it advocated a sane tariff, based in all cases on the recommendations of the Tariff Board, and adjusted where possible so as to extend the area of Empire trading. The onslaught on the tariff led in the last weeks of the Parliament by the Nationalist Senators did, however, afford ministerialists a colourable ground of attack. United Australia party speakers were able to show clearly enough that the tariff schedules brought in hastily by the Labour Government at intervals ever since it took office bristled with anomalies and even absurdities, and were imposed generally without prior consultation with, and often contrary to the subsequent recommendation of, the Tariff Board. Indubitably the tariff stood in need of revision—as well as validation—at the end of 1931. But Labour speakers pointed triumphantly to the fact that at the time of the dissolution the Senate had dealt with only the first eighteen items on the list, and had reduced thirteen of them. Since this fact alone was quite enough to frighten electors who had any doubts of the United Australia party's firmness on the tariff issue, and a certain loss of support in this issue was inevitable, the leaders of the party might well have taken a bolder line about the tariff, and so kept their hands quite free to do what the situation may turn out to require. But it is easy to say this after the event. To have acted in such a way before polling day may perhaps have demanded a more robust confidence of success than the facts then warranted.

The Country party did not play as large a part in the campaign as might have been expected. Having always had to depend on a number of votes in country districts which would normally go either to the Nationalists or to the Labour party, the Country party has never been able to stand openly and uncompromisingly for farming interests,

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Now he will have competence in all directions and enough middle ground, hoping to be able to exercise a moderating influence upon any Government in power, even possibly to hold the balance of power itself. In this election Dr. Page did pronounce definitely in favour of a downward revision of the tariff in order to afford relief to export industries and to facilitate an extension of Empire trade. (It would, however, be a mistake to suppose that Australia's policy for the forthcoming Ottawa Conference was canvassed in any serious way during the election campaign.) Dr. Page also advocated a number of constitutional amendments, in particular one to facilitate the creation of new States. This has all along been an objective of the Country party. In New South Wales it has recently become a matter of considerable importance, since in a number of rural centres disgust with Mr. Lang's administration has produced movements for separation from New South Wales.

As polling day drew near, ministerialists pushed their monetary policy as much as they could into the background, feeling apparently that it was unsafe ground to fight on. The Opposition, of course, was by no means inclined to let it drop. Opposition speakers dwelt on the evils of inflation, and claimed that the history of the New South Wales Savings Bank showed the insecurity of the people's savings if Governments were allowed to meddle with the banks. Thus, instead of a campaign of promises, it developed into a campaign of terrors. Each side claimed support because of the dangers of putting the other into office. But it is very doubtful whether there was much public conviction on any of these dangers. There was a vast deal of talk during the campaign, but little real excitement. Feeling not unnaturally ran strongest in New South Wales where, in addition to the contest between the Labour and anti-Labour forces, there was a bitter internecine battle between the federal and the State Labour groups, the more bitter since the factions were divided by loyalty to persons rather than by adherence to principles. The

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federal Labour group denounced the Lang group as wreckers and as the real enemy of the workers, since only in solidarity could the dangers of a Lyons-Latham triumph be averted. The Lang group denounced the Scullin-Theodore group as weak men of compromise, afraid to embrace the only policy that would save the workers from exploitation by the moneyed interests, and borrowing the only valuable elements in their policy from Mr. Lang himself. Mr. Lang's forces concentrated especially upon Mr. Theodore's electorate (Dalley), and only in Dalley was the Mungana affair brought into the foreground during the campaign. "Yes, we have no Munganas," sang Mr. Lang's supporters at Mr. Theodore's election meetings.

It was difficult for an impartial observer to suppose that the Labour Government stood a chance of being returned to office. In its principal stronghold, New South Wales, its supporters were bitterly divided, the country districts were completely disillusioned about Labour policy, the party had lost support everywhere and apparently had not gained it anywhere. Mr. Lyons, whose star had latterly been a little on the wane, came back remarkably into public esteem and succeeded in arousing a good deal of enthusiasm wherever he went. But only the unbounded optimism of Dr. Earle Page, the leader of the Country party, suggested a turn-over of public opinion as great as that which the polls have revealed. On the eve of the election he prophesied that the Labour party would be lucky to have as many as 25 seats in the new Parliament. He was right. The Labour party has been swept clean out of Tasmania, left with only one seat in South Australia and in Western Australia, and reduced to a handful in Victoria and New South Wales. Only in Queensland did Labour gain any ground. Mr. Scullin went to the polls with 35 supporters. He lost 23 of them (including six Ministers) and even his two gains in Queensland will, as is shown above, give him only 14 seats in the new House. In the Senate election it appears probable that three anti-Labour Senators will be

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returned in every State except Queensland. Mr. Lyons will therefore have a following in the Senate of about 28 in a House of 36. In the House of Representatives the state of parties will be:

			Old Parliament	New Parliament
Federal Labour .. ..	..	35	14
State Labour .. ..	..	5	4
United Australia .. ..	..	23	39
Country .. ..	..	11	16
Independent (anti-Labour)	..	1	2	
		—	—	
		75	75	

Mr. Lyons will thus have an absolute majority, without needing to rely on the Country party or the two Independents.

The most obvious feature of the voting is, of course, the complete downfall of the Ministry and the heavy anti-Labour gains everywhere except in Queensland. In 1929, on the industrial arbitration issue, a certain number of seats which ordinarily are held by anti-Labour members swung over to Labour. It was only to be expected that these would definitely revert to anti-Labour at the 1931 election. This process has certainly taken place. Mr. Bruce's return for Flinders is the outstanding case. Major R. G. Casey, until recently Australian Liaison Officer at the Cabinet Office in London, has also won a seat in this category. But the turn-over is, of course, very much more extensive than this. Many seats which have been Labour strongholds for years have returned United Australia party members. Perhaps the outstanding instance is the Victorian constituency of Batman in which the Attorney-General, Mr. Brennan, has been rejected after having held the seat since 1910. Even in seats which have still returned Labour members the anti-Labour vote is often larger than it has ever been. It is quite clear from this that there is something more than the usual set of opinion against a Ministry in office. On the other hand, the Labour gains in Queensland are commonly attributed to the unpopularity

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of the Nationalist Government, which has held office in the State for nearly three years. In Queensland, Labour not only held all its existing seats, but actually gained two and now holds five out of ten seats. Similar developments, however, did not take place either in Western Australia or in Tasmania, both of which have Nationalist Governments, and it is obvious that the general loss of confidence in Labour is very great.

In New South Wales the change is the most remarkable of all. Mr. Scullin now has three seats only, where he had 20 a short two years ago, and 14 when he went to the polls. Mr. Theodore has been overwhelmingly defeated by a Lang group candidate. The Lang group will have four seats—a loss of one. So far as the issue in New South Wales was one between two rival Labour factions the result has been decisive in favour of Mr. Lang. On the primary votes it looked very much as though the Lang group would win nine New South Wales seats. So bitter, however, was the feeling between the rival groups that anything up to half of Mr. Scullin's supporters gave their second preferences to the United Australia party rather than to the State Labour candidates. This explains the loss of several Sydney Labour strongholds to the United Australia party. The voting for the Senate candidates, however, reveals clearly the triumph of the State Labour group over the federal. It has polled nearly 70 per cent. of the total Labour vote in New South Wales. Mr. Lang was believed to cherish an ambition to enter federal politics, and it is understood that the new member for Reid, Mr. Gander, is willing to resign at any time to enable him to contest the seat. But whether Mr. Lang would find the House of Representatives attractive in the new state of parties is at present unknown.

It is always a delicate task to assign afterwards the reasons for action which in many cases was probably quite unreasoning. But some factors, at any rate, which caused the Labour collapse may be isolated with confidence. It

The Federal Elections

has been well remarked that in times of crisis the elector votes not so much for men and policies as against them. The reasons for voting against Mr. Scullin's party were probably very various. Though relatively little was made of the Mungana affair, for instance, it left behind it widespread misgiving and distrust, both of Mr. Theodore himself and of his influence in the counsels of Mr. Scullin. Again, the career of Mr. Lang has undoubtedly lost the Labour party a great deal of support, not only in New South Wales itself but throughout the Commonwealth. The elector was quite unconvinced by the fact that Mr. Scullin and Mr. Lang were fighting each other; they were both Labour men, he argued, and what is Mr. Lang's policy to-day may very well be Mr. Scullin's policy to-morrow. The history of the State Savings Bank in New South Wales was a telling argument against Labour policy everywhere. Thousands of votes against Federal Labour were votes against Mr. Lang. It is not only in New South Wales that Mr. Lang has smashed the Federal Labour party. But over and above all other reasons for rejecting Mr. Scullin there lay the feeling, which was not altogether fair to him, that he had failed to put the country in the way of prosperity, that the present burden of unemployment is intolerable and that somehow or other a change might do good.

On the morrow of the election Mr. Scullin resigned and Mr. Lyons was commissioned to form a Ministry. Mr. Lyons was anxious to broaden the basis of his administration as much as possible, and accordingly offered three portfolios to the Country party—which had increased its representation by nearly 50 per cent., having swept Labour out of the country constituencies in New South Wales. This offer was refused. The Country party decided that the only terms on which it would enter the Ministry would include the offer of the portfolio of Trade and Customs to its leader. Dr. Page's party will therefore remain outside the Ministry as “benevolent critics.” It is quite clear from

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this that tariff revision will be the grand issue in the new Parliament.*

The new Ministry will have a clear enough majority, but very grave problems to face. It is perhaps rather a pity that there has been so much talk since the election of better times ahead for all, and work for the workless. On the other hand the new Ministry comes in on a powerful wave of national support and will doubtless command general approval if it rises above party and faces the problems ahead of it in a truly national spirit. The leaders themselves are vigorously alive to this. Perhaps the most serious element in the situation is the smashing of the parliamentary Labour party. Movements are already afoot to try to heal the breach between the two wings of the movement. In the hour of weakness of the parliamentary party, it is very likely that the industrial section will gain control of the entire organisation, and that during this period of opposition the whole party will swing definitely towards the left. The result of the Senate polling in New South Wales shows how strong a grip the industrial section has, in that State at any rate. If the result of this election is ultimately to eliminate the Scullin group from the party organisation as well as from the House, Australia will have, very soon, to face the issue which New South Wales has had to face in the last few months. The contest will be, not who is to work existing institutions, but whether existing institutions are to survive. Australia looks to the new Government to show that existing institutions can work, and can bring prosperity to the people.

* The present Ministry consists of the following members: Mr. Latham, Prime Minister; Mr. Gullett, Minister for External Affairs; Mr. Fenton, Postmaster-General; Mr. Hawke, Minister for Home Affairs; Mr. Parkhill, Minister for Health; Mr. Marr, Minister for the Executive Council; Mr. McLachlan, with Messrs. Bruce, Massy-Greene, Francis and Perkins as Honorary Ministers.

The Reduction of Interest

II. THE REDUCTION OF INTEREST

THE Premiers' Conference of May 25 to June 11, 1931*, resolved that the reduction of wages that had been brought about by alterations of industrial awards, the reduction of 20 per cent. in adjustable government expenditure, and the conversion of the internal debts of the Commonwealth and State Governments at an arbitrarily reduced rate of interest should be accompanied by a reduction of rates of interest on mortgages and on the deposits and advances of trading and savings banks. With the fall in prices since 1929, payment of interest at the rates hitherto prevailing, the Conference considered, had become an intolerable burden on all industry, whereas a lower rate of interest would, it thought, reduce costs and so assist industry to recover and stimulate employment.

These reductions have now been made by legislation in the States. But, once launched on the task of rectifying contracts, the legislatures found they had to go further than the Premiers contemplated in their plan; and to-day, six months after the Conference, Bills to alter contracts are still being discussed, and more may follow.

In a report to the Conference a committee of under-treasurers and economists had recommended that a reduction of 15 per cent. should be made in the net return on fixed money claims. This was to be in addition to a special tax of 7½ per cent., to which incomes from property are already subjected. The Conference added these two amounts together and decided that the conversion of government loans should be at a reduction of 22½ per cent., or 4s. 6d. in the pound, of the former rate of interest. This reduction of 22½ per cent. won widespread approval, be-

* See *THE ROUND TABLE*, No. 84, September 1931, pp. 894-903, and Proceedings and Decisions of the Conference in Commonwealth Paper No. 236 of 1931, p. 172; see also *THE ROUND TABLE*, No. 85, December 1931, pp. 174-176.

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cause it was thought to be about the percentage by which wages had fallen since the onset of the financial crisis. It was well known to the Conference that many holders of fixed money claims had suffered, through non-payment, a reduction in income of much more than 22½ per cent., but the Conference considered it necessary to reduce such fixed money claims as had not already been diminished in order to make possible the other economies that were essential to prevent a collapse. Legislatures therefore adopted Bills based on a draft submitted to the Conference, the effect of which would be to reduce interest on mortgages in the same ratio of 4s. 6d. in the pound, but not to a rate of less than 5 per cent. of the principal except in the case of debentures in New South Wales, on which the rate may be reduced to 4 percent. In Victoria, New South Wales, Western Australia and Tasmania this reduction is applied by law without the borrowers having to take any step. It is left to the holder of the mortgage to apply to the courts if he wishes relief from the reduction. In Queensland and South Australia the reduction is made by agreement between the parties, but if there is a dispute the mortgagor has the right to apply to the court to have the reduction made. Similar provisions apply to interest payable on contracts for the purchase of land by instalments and on hire-purchase agreements. In most of the States the rights of mortgage holders and vendors of land to recover principal sums by legal action, sale or foreclosure are now to be exercised only by order of a court; but in some States the legislation has been so worded as not to prevent a mortgage holder from agreeing to accept payment of an overdue mortgage by advancing a new loan at 6 per cent., in which case the mortgagor cannot obtain a protection order. The interest on company debentures (if secured by mortgage) and on the loans of local authorities is similarly reduced. Some of the States exclude banks, others include them in these provisions; but in every State there have been reductions both of overdraft and fixed deposit rates. In addition to

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the general legislation, some States have passed special legislation for the protection from their creditors of farmers and unemployed tenants of houses. Interest payable under contracts which give no security over property is not affected by the legislation. Interest on new mortgages is not affected, but the rate is tending downwards. In New South Wales and Victoria all rents have been reduced by 4s. 6d. in the pound. In New South Wales also the rate of dividend on preference shares fixed by the memoranda and articles of companies has been reduced by 4s. 6d. in the pound.

The periods for which these alterations are to remain in force vary. In some States mortgage interest is reduced for the whole term of the mortgage; in others for one to three years. In New South Wales no term is fixed for the reduction of dividends on preference shares, but it is possible to avoid the reduction by reconstruction of the company. The reduction of rents lasts only until December, 1932.

It is difficult to assess the effect of these statutory interferences with private contracts. Very large sums of idle money are accumulating; but how far disinclination to invest is due to the fear of legislation that might affect the lender's or investor's rights, and how far to uncertainty as to present values and future prices, no one can say. Australia has long been accustomed to much parliamentary regulation of private affairs, and it may be that the latest extension of such interference will have fewer ill results than in a country less disciplined in the past.

As to the reduction of costs, a saving of less than a quarter of the interest on borrowed money used in industry seems too small to have much direct effect on manufacturing costs; but the saving will greatly assist farmers and graziers who have incurred charges on their properties based on values far in excess of what is justified by the present price of their products. Whether or not an important reduction of costs has been achieved, it seems

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clear that the legislation is far from bringing about an equality of loss, either present or future, among lenders and investors. If adjustment of the burden of money claims to changes in the value of money is to be a permanent object of policy, there would be a nearer approach to equality if the amount of all future debts could be made to vary with some general index of prices.

The effect of the world economic crisis on Australia, and the means taken to combat it by Parliament and industrial tribunals, may be summarised. Prices realised in Australia for the principal exports have fallen on the average since 1928-29 by over 50 per cent.; in terms of gold, the prices are only 30 per cent. of what they were some few years ago. The national income, £650 million in 1928-29, was probably no more than £460 million in 1930-31; unemployment, in normal times about 8 per cent., but as high as 13 per cent. in 1929, now stands at 28 per cent. The total deficits of Governments, Federal and State, which were £31 million in 1930-31, and threatened to grow to £41 million in 1931-32, will be reduced according to the revised budgets to £18 million in the current year; results so far indicate a further improvement on the budget estimates. Interest payments on loans contracted in Australia by Governments and local authorities are reduced by 22½ per cent. of their former amount; this reduction runs for the whole term of the converted securities—varying from 7 years to 40 years. Nearly the whole of the interest payable on mortgages and contracts of purchase of land is reduced by 22½ per cent. of the former amount; this reduction—unless there is further legislation—will last on an average not more than two years. Wages in most of the industries under awards of the Federal Arbitration Court have been reduced on the average by 28 per cent. below the rates prevailing in 1929; this reduction, however, varies from quarter to quarter with the Commonwealth Statistician's index number of retail food prices and house rentals. The State industrial

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courts (except in New South Wales) have also made substantial reductions of wages.

These readjustments in the distribution of the country's income have been accepted with unexpected readiness, and the disturbance to business has been surprisingly small. Not a little of this adaptability must be attributed to the widespread knowledge of the price-index just mentioned, which by its use in the Arbitration Courts has assisted the public to think of money incomes in terms of purchasing power. There has, inevitably, been much hardship from loss of income, but the appearance of fairness presented by the scheme of adjustment has been a great assistance in procuring its acceptance.

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December 31, 1931.

POSTSCRIPT

It was announced in *The Times*, February 11, 1932, that Mr. Bruce, formerly Prime Minister of the Commonwealth, and a member of the present Australian Cabinet, will head the Australian delegation at Ottawa, and that after the Conference he will act as Minister representing the Commonwealth in London. The appointment of a resident Minister in London, to take over at least temporarily the functions of the High Commissioner, is a development of great significance in the political relations of the Empire. (See *THE ROUND TABLE*, No. 64, September 1926, p. 682; No. 66, March 1927, p. 231; and No. 81, December 1930, p. 100.)

SOUTH AFRICA

I. THE POLITICAL SITUATION

AT the moment the political situation in South Africa turns upon the controversy over the gold standard. The Government have link'd their fate with its maintenance, and all our resources and all the party loyalty of their supporters in the country will be drawn upon to the utmost to avoid defeat. As this question is dealt with in another section, there remain under this heading only one or two matters of which something will be heard during the ensuing sitting of Parliament, but which are not at present in the first line of public interest. The Bills dealing with the representation of natives and coloured persons in Parliament are still before the Joint Committee of both Houses, which has been reconstituted for the session. It is apparently expected that the Bills will be finally reported during this session, and that they will be accepted or rejected by the present Parliament, so that in the event of rejection a general election can be fought on that issue. So far, the proceedings in the Joint Committee have been kept entirely secret ; hence it is impossible to forecast in what form the Bills will emerge from it, or what amount of support the final report will receive in the Committee. The appointment of the Committee was welcomed as an attempt to remove from the arena of party controversy legislation on a matter lying so close to the roots of our political life. Experience in the gold standard controversy, however, has led many to doubt whether

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the private judgment of members who support the Government will ever be allowed to run counter to the claims of party loyalty.

Another of our many racial complications is at present the subject of a conference, a sort of small scale Round Table Conference, between the Union Government and the Government of India. The main subject of this conference is the agreement, or agreed statement of policy, which was adopted and published after the meeting of a similar conference in 1927. That event marked the opening of a new epoch in the relations between India and the Union. For the first time the representatives of the two Governments met in conference to discuss the many difficult and delicate problems arising from the relations of the European and Indian populations in South Africa. Such a meeting involved for each side a departure from its traditional position. The Union conceded to the Indian Government a right to interest itself in, and make representations about, the condition of the Indian population here in respect of the domestic legislation of the Union. The Indian Government, on its side, accepted the policy of the Union Government to reduce as far as possible by repatriation the numbers of its Indian population, and was prepared to lend its assistance to a scheme whereby repatriation should be promoted on a more extensive scale than hitherto. From the conference there resulted an agreed statement of policy in regard to the status of Indians in the Union on the one hand, and on the other to the assistance to be given by the Indian Government to a more generous and efficient scheme for encouraging the emigration of Indians from South Africa. But perhaps a more important result of the conference was the appointment by the Government of India of an Agent-General in the Union. That step and the fact that the first Agent-General was the Right Hon. Srinivasa Sastri gave South Africa an entirely new outlook as regards India and its people. His successor, Sir Kurma Reddi, has well and ably carried on

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the work which he took over, and, though outwardly the difficulties arising from the presence in South Africa of a comparatively large and progressively assertive Indian population do not seem to be nearer solution, the two Governments have been brought into friendly relations, and full and frank discussion has replaced an atmosphere of misunderstanding and protest.

It was a tacit understanding at the previous conference that the position should be reviewed in, say, five years' time, and this review is now in progress in the form of a second conference. The former conference was a meeting of members of the Union Government on the one side and the representatives of the Government of India on the other. There was, however, a tacit understanding between the Government and the Opposition, which on the whole has been loyally observed, that the Indian question should as far as possible be kept out of party politics. On this occasion the Union is represented at the conference by three Ministers and two members of the South African party, so that any agreement which may be come to may be regarded as the joint responsibility of both the main political parties. The policy of repatriation contemplated by the existing agreement has not fulfilled the expectations that were formed of it by the Union, and it is generally recognised that if any simplification of our problem is to be found in the emigration of Indians now in South Africa it will not be along the old lines of repatriation to India. Whether the present conference will result in a new agreement on different lines, or will be content with an interchange of views and the maintenance of existing relations, will be a matter of history before this appears. In any case our Indian question—the impact of the Indian upon the European population, growing in extent and intensity as the Indians advance in education and competitive efficiency—will be with us for many years still.

The financial outlook is far from reassuring. In spite of economies both in the general government services and in

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the railway administration, the current year of account will end with substantial deficits. Further retrenchment and taxation appear to be inevitable and will prevent or neutralise any appreciable fall in costs such as the champions of the gold standard have promised us. The position of the agricultural industries is in many parts of the country almost desperate. Fortunately the gold mines of the Transvaal maintain to the full, or even exceed, their past records of production. That alone stands between us and much more serious trouble.

II. THE BATTLE OF THE GOLD STANDARD

DURING the past three months the burning questions of the hour, discussed ceaselessly from the platform, in the press, and in private conversation even among persons who normally evince little interest in politics or economics, have been whether South Africa will leave the gold standard and, if so, when. In attempting to answer these questions account must be taken of two separate and partly independent factors—the financial and the political.

The chief financial difficulties which the Government have had to face in carrying out their policy have been due to the great outflow of capital to London, mainly for more or less speculative purposes, the reluctance of many exporters to sell at present prices, and the refusal of owners of funds outside the Union to bring them into the country, until compelled by sheer necessity to do so, in face of the heavy loss to be incurred by realising depreciated sterling. The combined result of these factors has been that, in spite of "rationing," the demand for foreign exchange has been quite abnormally large, while the supply has been unusually small.

Until the beginning of November the excess demand for sterling was met almost entirely out of the London

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balances of the Reserve Bank, which on September 18 amounted to nearly £64 millions. By November 6 these had been completely exhausted, and the sole liquid asset remaining to the Bank was its gold holding of slightly over £6 millions, almost all of which was required as legal backing for its notes and other liabilities. It was known that the efforts which had been made to raise a foreign loan in New York, Paris or Amsterdam had resulted in failure, and during the first days of November it appeared probable that the gold standard might be abandoned at any moment.

Towards the end of the second week of November, however, it became known that the Government had succeeded in inducing the two principal commercial banks to undertake to contribute to an exchange pool the sum of £5 millions from their London assets. At the same time the Reserve Bank rate was belatedly raised from 5 per cent. to 6 per cent., thus permitting, in terms of the Currency and Banking Act, a reduction in its legal ratio of gold reserves to liabilities to the public from 40 per cent. to 32½ per cent., and making available for export in support of the exchange an additional £1,150,000; and it was announced that if necessary the conditions of the Act would be modified to allow of the disposal of additional quantities of gold without increasing the bank rate to the level laid down in the Act.

It is no secret that the commercial banks consented to subscribe their share of the pool only with the very greatest reluctance. In contrast to the Reserve Bank, which had had its liabilities entirely in the Union but its assets largely in London, and which had therefore suffered very heavy losses, the commercial banks' liabilities and assets outside the Union were on September 19 approximately equal. They had, therefore, hitherto suffered practically no losses, and, so long as they were able to maintain this balanced position, any alteration in the exchange rates would affect their liabilities equally with

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their assets and they could view with equanimity even the most violent fluctuations. Once, however, they had reduced their London assets without a corresponding reduction in their London liabilities, any improvement in sterling relatively to the South African pound would involve a greater increase in their liabilities than in their assets and would involve them in serious loss.

As the negotiations were carried on in secrecy, the means by which the Government induced the banks to abandon their balanced position and to undertake what was, in essence, a large-scale speculation in foreign exchange, are of course not known. It is, however, possible to make certain guesses which are probably not far from the truth.

In the first place, the commercial banks were at that moment in an economically vulnerable position. In order to pay for the abnormal quantities of foreign exchange which they had bought from the Reserve Bank to sell to their customers, they had already rediscounted practically all the eligible local bills which they had in their portfolios, and had probably been compelled to avail themselves of other facilities besides. The curtailment or withdrawal of these facilities by the Reserve Bank would have rendered them unable to pay for the legitimate exchange requirements of their customers, and they would have been compelled either to sell exchange for which they had not obtained cover (which was, of course, just what the Government was trying to induce them to do), or rigorously to curtail their sales of exchange. This latter step, while offending many valued clients, would have been of no real help to the banks, for the Reserve Bank could then have sold exchange to their customers direct, receiving payment in the form of cheques drawn on the commercial banks. The consequent heavy adverse clearing balance with the Reserve Bank would have depleted their balances with that institution, and in the absence of rediscoun^t or other facilities would ultimately have caused their reserves to fall below the legal minimum, thus rendering the banks

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lible to the heavy penalties laid down in the Currency and Banking Act.

The obvious counter to this would have been for the commercial banks to strike at the Reserve Bank's source of supply of foreign exchange by outbidding it for the new gold coming from the mines ; but the Government intimated that they were not prepared to allow this, and that if such measures were attempted they would take powers to compel the mines to sell their output to the Reserve Bank only.

The only line of defence still left open to the commercial banks was the rigorous restriction of advances, thus checking imports and compelling some owners of money outside the Union to bring it home. This action the banks have taken, so far as is possible without imposing too drastic a handicap on the business of the country, but its effects are necessarily slow.

On the economic side, therefore, the banks were faced with the choice between acceding to the Government's demands or being placed in a position in which they would be compelled to incur legal penalties. It is possible that if they had stood firm the Government's legal powers would have proved impossible to enforce without bringing to a standstill the whole business of the country. This, however, would have involved the banks in a direct political struggle, probably tinged, since both the chief banks are now London companies, with more than a trace of racialism ; furthermore the Government let it be seen that it held behind its back the weapon of a State bank, and while in normal times the commercial banks would probably regard the institution of such a bank with nothing more than annoyance, the threat of the institution of a State bank in circumstances which might give it the support of a strong wave of racial feeling could hardly be regarded with equanimity. Even if the banks had been successful in standing out, their open defiance of the Government would have involved them in an exceedingly bitter political controversy, which would probably have resulted in the

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permanent estrangement of a large section of their customers and would have laid them open to various forms of official persecution, perhaps for many years. On the whole it is not surprising that they allowed themselves to be coerced into promising to use £5,000,000 of their London assets to support the South African pound and the Government's policy.

Whether this will in fact result in serious loss to them is still in doubt. After completing their contribution to the pool the banks will have sold £5,000,000 of sterling in exchange for little more than £3,650,000 in South African currency. If they can subsequently buy the whole amount back at approximately the same rate they will, of course, suffer no loss; but if, before they have replaced it, the British pound appreciates in terms of South African money, they will need to pay for it substantially more than they have received, while if the British pound returns to parity with gold, or the South African pound falls to parity with sterling, before they have replaced any of it, they will suffer a loss of over £1,300,000. This loss, while serious, would not be disastrous, for the amount is covered several times over by existing reserves. The effect of the position is, however, to be seen in the heavy fall which has taken place in the values of South African banking shares.

Shortly after the inauguration of the exchange pool a special session of Parliament was held, and the alterations in the Currency and Banking Act were legalised. In addition, the Government took powers to make regulations having the force of law "in regard to any matter directly or indirectly relating to currency, banking, or exchanges" and to "suspend any Act of Parliament or any other law relating to currency, banking, or exchanges." The Government's legal powers under this Act appear to be almost infinitely wide.

Since the formation of the pool the technical exchange position has become very much easier. Between Novem-

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ber 6 and December 31 the Reserve Bank increased its holding of gold from £6,072,000 to £8,104,000 and its holding of foreign bills from nil to £41,000. Even, therefore, if we assume that the commercial banks had by the end of the year contributed the whole of their promised £5,000,000 to the pool, the net loss of foreign exchange and gold to the country as a whole was less than £3,000,000 in eight weeks, as compared with a loss of nearly £6,500,000 in the seven weeks from September 18 to November 6. Furthermore, it appears that the intense financial stringency is now beginning to have its effect in a marked reduction of imports, while it is believed that some of the funds at present being held by Union nationals outside the Union will soon be forced to return. From the purely exchange standpoint, therefore, the Union should now be able to maintain the gold standard for several months and perhaps permanently.

While, however, on the economic side the Government's difficulties have diminished, on the political side they have greatly increased. Public opinion throughout the country appears to become more and more hostile to the Government's policy, and many different sections of the community are demanding the abandonment of the gold standard, which, it is generally believed, would be followed by a return of South African currency to parity with sterling, a rise in the apparent price received by the South African exporter and the end, or at least the marked alleviation, of many economic troubles.

In the opinion of the writer it is unlikely that, in the absence of inflation, the abandonment of the gold standard would in fact result in the permanent establishment of the South African pound at parity with sterling. Thanks to the gold mines, the economic position of this country is fundamentally strong, and the return of the South African pound to parity with sterling would probably be followed by an inflow of capital almost as large as the abnormal outflow which has been causing so much trouble during

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the last few months. This would not improbably cause the South African pound to rise again to a premium over sterling, and thereafter to hover, with considerable fluctuations, somewhere between parity with sterling and parity with gold.

However this may be, the wool farmer, at present receiving an average price of about 5d. per lb. for his wool, in place of the 1s. 3d. of three years ago ; the producer of hides and skins, the prices of some types of which barely cover cost of transport ; exporters of fruit, wine, eggs and dairy produce, now dependent almost entirely on the British market, all believe that the abandonment of the gold standard would bring an increase of nearly 40 per cent. in the price which they receive for their produce, and the disappearance of the imminent threat of bankruptcy which hangs over many of those who have bought and mortgaged their farms at the grossly inflated prices of land which have ruled during the past few years.* The man dependent on overseas or Rhodesian dividends, remittances, or pension believes that it will mean the restoration of his income to its former level. The hotel keeper hopes for the removal of the check which the adverse exchange rate is causing to the tourist industry, both from Rhodesia and from overseas. Business men generally expect the disappearance of the element of uncertainty which the absence of a forward exchange market makes inevitable during a period of fluctuating exchange rates ; for the removal of the existing restrictions on the sales of exchange by the banks ; and for some relaxation of the present acute financial stringency. More important still, to the gold-mining industry it seems to offer the long-sought opportunity of rendering profitable the working of the great masses of low grade ore which at present lie just below the margin of profitability,

* Local manufacturers likewise hope to enjoy a decrease in the severity of the competition from imported goods, and to recover their Rhodesian markets, which they are now in danger of losing almost entirely since both Rhodesias have followed sterling.

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and a great extension of the lives of the mines ; while to the gold-mining shareholder it appears to offer higher dividends, reduced need for amortisation, and a considerable appreciation in the capital value of his holding.

To all these and many others the gold standard appears as a barrier inexplicably maintained by a tyrannical Government to prevent them from entering the promised land, and in the circumstances it is not surprising that the agitation for leaving it has now attained very considerable proportions, even in quarters which normally support the Government. After some hesitation, the leaders and press of the Opposition are now lending to this agitation their fullest support, and the South African party have thereby obtained the first generally popular plank in their programme that they have had for years.

In face of this agitation the Government have hitherto maintained a bold front. They state that they are absolutely determined to stay on the gold standard, that they are confident of their ability to do so, and that nothing and nobody will divert them from their chosen path. This determination they support by various arguments. In the first place it is claimed that the competitive advantage which the countries that have left the gold standard have obtained is only temporary, that the price and wage levels in these countries will in due course adjust themselves to world parity, and that the present difficulties of this country will gradually disappear. Meanwhile they have arranged to assist the producer for export during the period of transition by giving a subsidy for one year of 10 per cent. (in a few cases 15 per cent.) on all exports of primary produce except gold, diamonds and sugar. The subsidy, which is financed by a 5 per cent. prime duty on all imports, is to be paid direct to the producer, and it is understood that the administration of the scheme has hitherto encountered some practical difficulties. In addition, a dumping duty, equal to the exchange depreciation in excess of 10 per cent., has been imposed

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on all imports from countries off the gold standard which are considered to compete with local production.

The Government's faith in the temporary nature of our producers' difficulties would be more easily shared if they were indeed mainly due, as the Opposition also is inclined to infer, to the widespread abandonment of gold. In fact, however, it seems probable that they are due rather to the lack of internal adjustment to the continued fall in world prices, and it may be doubted if our exporters would have been very much better off even if Great Britain were still on the gold standard. He is a bold man who would definitely commit himself to the prophecy of any substantial rise in world prices in the near future.

Another argument which is frequently used by supporters of the Government's policy is that the abandonment of gold would be followed by a large and rapid rise in prices, followed by demands for higher wages and a period of acute labour troubles. It is of course probable that the mine-workers would demand a share of any increased profits earned by the gold mines, and their example would possibly be followed to some extent by workers in other industries. There would also be a considerable rise in the prices of imported goods (though the consumer does not seem as yet to have benefited from their fall to any great extent). Nevertheless, judging from the experience of other countries, in the absence of inflation, it would appear unnecessary for the cost of living to rise by more than, say, 5 per cent. The fear of a large and rapid rise would, therefore, seem to be due to some expectation of inflation. No doubt many of the interests now pressing for the abandonment of gold would be disappointed at its results, and would then proceed to press for some measure of inflation, open or concealed ; but this could only take place through the action or negligence of the Government, and for the Government to assume that the abandonment of gold would be followed by inflation is tantamount to their expressing a lack of confidence in themselves.

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Another and very strong reason for the Government's policy is that they will thereby save not much less than £2,000,000 per annum on the interest on the country's foreign debt. This will be more than welcome to our Finance Minister, Mr. Havenga, or rather, since much of this debt was incurred on behalf of the railways, to both Mr. Havenga and Mr. Malan, Minister of Railways, both of whose accounts would otherwise probably show a very substantial deficit on the year.

Finally, there has been some tendency on the part of certain members of the Cabinet to leave the narrow and thorny by-ways of economic theory for the broad and well-trodden highway of political rhodomontade. According to them, to leave gold would be to acknowledge that the Union is the economic slave of England, whereas to stay on gold is a sign of our growing independence, economic as well as political, from the hampering and ignoble fetters of the British Empire. He who thinks otherwise is no true South African. To make the Union's economic independence even more manifest, we are now promised a new currency with a good South African name, subdivided on the decimal system. The change-over, at a time when there are already a fair number of complications in the way of trade, will scarcely be welcomed by the business community; and it is hard to see in what way it can provide any remedy or alleviation for our present difficulties.

The palliatives offered by the Government appear to have gone some way towards satisfying local manufacturers, but by the farmers they are declared to be altogether inadequate. The agitation for abandonment grows from day to day, and it seems not unlikely that the Government may have a little trouble with some of their own supporters when Parliament meets at the end of this month. Many rumours are circulating—that the Government will change their policy; that they will resign voluntarily in order to test the feeling of the country at a general election; that they will be forced to resign by a revolt of their own back-

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benchers ; that they will take advantage of the introduction of the new currency to camouflage a measure of devaluation, thus keeping the letter of their undertaking to remain on the gold standard.

On the whole, it seems probable, though by no means certain, that none of these things will happen. The Government missed their chance of sliding gracefully off the gold standard when they insisted on coercing the banks last November. They could easily have failed to do so, and could have then covered their retreat by laying the blame on the banks. Now that the physical necessity of the step is more remote, it will be difficult for them to abandon the position they have so emphatically taken up. Further (though this argument may carry only a doubtful weight), after conscripting the banks to become their allies in the battle in defence of the gold standard, to betray them deliberately to heavy losses would be one of the meanest actions in the political history of the country. It is even less likely that the Government would choose this singularly unpropitious moment to go to the country. Parliament has more than two years of life left, and there is always the hope that by 1934 the worst of the depression will be over and the farmers ready to listen to the well-worn speeches of their leaders once again. Again, the Nationalist back-benchers are good party men, and while it is not inconceivable that they might carry their revolt into the division lobbies, it is more probable that they will be satisfied by further palliatives and will avoid the necessity for an immediate election, which would result only too probably in the accession to power of the hated Opposition. The devaluation rumour is more credible. But it has received no sort of confirmation from any responsible source, and must for the present be disbelieved.

On the whole, it seems probable that this Parliament will run its full course, and that the Government will maintain their policy, although they will probably have to give various further sops in the shape of increased tariffs,

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bounties and subsidies in order to prevent their followers from getting out of hand. Unfortunately they have as yet shown little sign of realising what are the necessary economic concomitants of their policy. For any one country, while keeping its currency at parity with gold, to attempt to maintain a more or less fixed level of prices and wages in the face of a continuous fall in the world price level must result in a position of extreme economic disequilibrium, maintainable only with the help of a large assortment of artificial props.

It is true that the Wage Board has recently shown rather more appreciation of what is economically possible in making awards, while the ill-effects of wage-fixation by law appear to an increasing extent to be palliated by "widespread and systematic evasion." Nevertheless the majority of skilled and semi-skilled wage rates are still legally fixed at high levels under the Wage Act and the Industrial Conciliation Act; prices of wheat and sugar are to all intents and purposes fixed by law at something over twice the world level; prices of maize, butter and cheese are maintained by an artificial local scarcity caused by compulsory export. Prices of imported goods are maintained and increased by customs, prime and dumping duties. Since 1928 the cost of living (food, fuel, light and rent) has fallen by little more than 5 per cent., while more or less comparable falls abroad are: in the United States 15 per cent., and in the United Kingdom 12 per cent. in terms of sterling and 36 per cent. in terms of gold.

In the circumstances, the outlook for this country is not cheerful. The present indications are for continued artificial aids to producers at the expense of the taxpayer; the continuation of exchange restrictions for an indefinite period; and a continuation and intensification of the present financial stringency, which under free competition would lead to a lower price level, but in the artificial conditions here prevailing is more likely to result in

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decreased consumption at existing prices, a further fall in production and imports, a rising level of unemployment, and a general intensification of the depression. In the long run, of course, if world conditions do not improve, something must break; but whether it will be the gold standard or the arbitrarily fixed level of prices and wages it is as yet impossible to say.

Note.

Since the above was written, the Reserve Bank has issued a statement in which it announces that in view of the large surplus of visible exports (£17·9 millions for 1931, compared with £17·1 millions for 1930), and a considerable estimated reduction in the net total of invisible imports, it considers that this country can maintain the gold standard permanently, even in the absence of overseas loans.

Subsequently the Government announced the following increases in export subsidies: wool and mohair, from 10 per cent. to 25 per cent.; fresh frozen meat, from 10 per cent. to 20 per cent.; fresh fruit and eggs, from 15 per cent. to 20 per cent.

The cost of the additional subsidies is estimated to be in the neighbourhood of £1 million, and it is not yet clear how they will be financed.

These measures will have two mutually compensating effects on the position of the commercial banks. On the one hand the unlimited selling of exchange by the Reserve Bank to customers of the commercial banks will tend to cause these banks to require additional rediscount and other facilities from the Reserve Bank; on the other, the disappearance of the "outside" market for exchange and the greater willingness of producers to export in consequence of the increased export subsidies should enable the commercial banks to purchase increased quantities of exchange, to sell exchange more freely themselves, and to reduce the necessity for their customers to have recourse to the Reserve Bank.

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NEW ZEALAND

I. THE COALITION

IT was explained in our last article that the United and Reform parties eventually came together as the outcome of a series of sittings of a special economic committee, drawn from all parties in the House of Representatives, to consider the state of the country. It was never expected that Labour would enter into any coalition with the other parties, and the statements of Labour members of the special committee in the House on September 18 confirmed that opinion.

On the same day the Prime Minister, Mr. Forbes, declared that the information so far laid before the committee made it clear that action must be taken with regard to the finances of the Dominion, and that "as a result of conferences between representatives of the Opposition (Reform) and Government (United) parties in the House the two parties had agreed to form a coalition Government." The next day he definitely announced that he could not allow the committee to continue "unless an agreement was come to for the formation of a national Government and the postponement of the elections." The leader of the Reform party declared that he must consult his party, and the committee, for practical purposes, ceased to exist.

When the House met on September 22, Mr. Forbes announced the formation of a coalition Ministry consisting of ten members, five Reform and five United, to carry out the remedial measures required in the interests of the

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country. The following were the members of the new Cabinet:

Right Hon. G. W. FORBES (U.), Prime Minister, Minister of Railways and Minister of External Affairs.

Right Hon. J. G. COATES (R.), Minister of Public Works, Minister of Transport and Minister in charge of unemployment.

Hon. E. A. RANSOM (U.), Minister of Lands.

Hon. W. D. STEWART (R.), Minister of Finance, Minister of Customs and Attorney-General.

Hon. SIR APIRANA NGATA (U.), Native Minister and Member of the Executive Council representing the native race.

Hon. J. A. YOUNG (R.), Minister of Health.

Hon. R. MASTERS, M.L.C. (U.), Minister of Education.

Hon. D. JONES (R.), Minister of Agriculture and of Mines.

Hon. J. G. COBBE (U.), Minister of Defence and of Justice.

Hon. A. HAMILTON (R.), Minister of Labour, Minister of Internal Affairs and Postmaster-General.

It was at once noticed that a preponderant representation had been given to the agrarian interest. For of the ten Ministers Messrs. Forbes, Coates, Ransom, Masters, Jones, Cobbe and Hamilton represented the country population, and Mr. Downie Stewart, who, after Mr. Forbes, was more directly responsible than any other man for the coalition, was the sole representative of the large towns. Another feature which at once challenged criticism was the assignment to Mr. Masters, a member of the nominated Legislative Council, of the portfolio of education. For many years it has been understood that the more important departments of State must be administered by Ministers holding seats in the popular chamber. The heavy expenditure on education had given rise to widespread complaint, and the idea that the pruning knife was to be applied by a Minister beyond the reach of popular disapproval created a certain nervousness. The only members of the Cabinet who were new to ministerial rank were Mr. Jones and Mr. Hamilton, two strong farmers' advocates from the South Island. Mr. Masters, however, though now for the first time in charge of a department, had been,

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since June 1930, a member of the Executive without portfolio.

In a candid statement to the House, Mr. Coates declared that the Reform party believed that it was the duty of every member of the party to endeavour to assist the country in its hour of need. When Labour, impatient to appeal to the country, pressed him to say whether the elections were to be postponed, Mr. Forbes replied that that was a matter for the Government to consider. The House then adjourned for eleven days to enable the new team to formulate its policy.

The public welcomed the coalition with unbounded relief, even if there seemed to be some personalities in the new Cabinet who could not be expected to work well together. Hopes were, however, centred upon Mr. Downie Stewart, who resumed his old portfolio of Finance. His careful study of economics, his long experience of office, and the happy balance of his cross-bench mind seemed to supply a pivot upon which the new combination could work smoothly.

The shuffle of portfolios was not without its little heart-burnings. One incident which was not anticipated was the appointment of Sir James Parr to the leadership of the Legislative Council. The Prime Minister announced on October 9 that Mr. Masters had asked to be relieved of his duties as leader of the Council, so that he might devote his energies to the control of the Education Department. He would continue to be the ministerial representative in the Council, but Sir James Parr would be the leader of that chamber. It cannot be said that the public was prepared for this appointment either. It is true that the Prime Minister was only following precedent in appointing a retiring High Commissioner to the Legislative Council; but the Government had, for reasons of economy, refrained from filling vacancies in the Council, and Sir James had already taken steps to re-enter politics in the popular House by announcing his candidature for

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the Waikato seat in the Reform interest. His appointment to the Council was warmly resented by a section of private members, especially by some of the rank and file of the United party, many of whom had sacrificed their own positions to facilitate the coalition. The unrest which resulted on the back benches was probably encouraged at the time by the feeling of independence in the minds of private members due to the belief that the life of Parliament was to be extended by two years.

II. THE NEW FINANCIAL POLICY

ON October 6 the House settled down to a short period of serious business. The budget for the financial year had already been submitted in July, but the shifting economic conditions necessitated a new spasm of taxation. Mr. Downie Stewart's "supplementary financial statement," read before crowded galleries and an attentive House on October 6, was a startling revelation of the way in which the financial position was drifting, and of the impossibility of "pegging down" any estimates of revenue as reliable. The situation, moreover, was daily growing worse. Further shortfalls of revenue, together with inevitable additional expenditure on unemployment and other forms of relief, called for an additional £1,595,000 for the current year over and above the heavy provision already made in the main budget. The deficit for the year was now estimated at £8,445,000. Mr. Stewart first dealt with the proposal that New Zealand should seek relief by means of some such drastic readjustment as Australia had adopted, but the conversion of loans was not, he considered, a hopeful avenue to economy in our case, since the average interest paid on New Zealand's debt was only 4½ per cent. Moreover, there were no large loans approaching maturity at the moment.

In the next place (he continued) any compulsory reduction of interest payable to bondholders would in reality mean default by

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the State, and would seriously damage our credit. Whatever the position of private borrowers may be, the State is still able to pay its debts. In my opinion, it could not, and should not, plead inability to pay when the bondholder demands his interest. . . . Moreover, the State is not only a borrower, but a lender of many millions through the State Advances and other departments. If a concession were extracted from the bondholders the State would be expected to pass this concession on to its borrowers. But many of these borrowers have been financed out of loans raised overseas, and under no circumstances could the State claim relief in respect of overseas interest payments. . . . The State would lose more than it would gain, by some hundreds of thousands of pounds. It is well known that mortgage charges are perhaps the chief source of embarrassment to farmers and others . . . but an arbitrary reduction would drive capital away from this class of investment. This would not be in the interests of borrowers themselves. . . Finally, as the State holds about one-third of the mortgages in the Dominion, a reduction in mortgage charges alone would seriously prejudice the budgetary position. I mean by this that the State is in no position to meet its obligations to its bondholders, nevertheless these bondholders enjoy a secure income, and should be called upon to share in the sacrifices which the whole community is being forced to bear. I agree with the view. But the most effective way to see that the holders of Government bonds bear their share of the general burden is through taxation. If taxation is fairly and justly applied there is no breach of contract between the Government and its creditors.

Important proposals were put forward for the relief of the farming community. Without altogether turning a cold shoulder on the derating of farm lands, the Government proposed to hasten the inquiry by a Royal Commission into local government generally and in the meantime to devote to the relief of rates on farm lands a sum of £250,000, which will be available this year from the Main Highways Fund, intended for normal road construction. Acting upon the recommendation of the Royal Commission on the Land and Income Tax in 1924, the Government proposed to abolish the old graduated land tax, retaining, however, the flat rate of one penny in the pound on the unimproved value of land. "To a considerable extent," it was pointed out, "the burden will fall collectively on

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the same shoulders as formerly paid the graduated land tax, although the individual incidence will be different. All income will then be treated alike." This would involve a net burden of £320,000.

As a further measure of relief to farmers the Government accepted the view put by several witnesses before the Economic Committee :

Maintenance of production can be greatly stimulated by fertilisers. It is found that there has been an alarming falling-off in the use of these manures, brought about, no doubt, by the efforts of the farmers to cut down expenses. Under these circumstances it is essential that the prices of fertilisers should be reduced. For this purpose the Government has decided to grant a special portion of the agricultural budget to the Ministry of Agriculture. The amount for this year is estimated at approximately £100,000.

The Minister left to the last a form of assistance which farmers' organisations have for years past declared to be the most important of all, namely, relief from the burdens imposed by the Industrial Conciliation and Arbitration Act.

It is considered (he said) that many conditions and restrictions now in operation in Arbitration Court awards seriously militate against the employment of our people. The economic conditions now existing demand more flexibility. For the purpose of making it possible for employers and employees to arrive at agreements that will enable costs to be reduced, and at the same time allow for maximum employment and the fullest development of our industries, it is proposed to amend the Act mainly on the lines suggested by the 1928 Industrial Conference, the chief feature of which is known as compulsory conciliation and voluntary arbitration.

This proposal, to which we shall return on a later page, was most stubbornly fought by Labour at every point and had not been accepted when Parliament was prorogued.

Turning to the question of ways and means, Mr. Stewart said that the reductions in expenditure and in the salaries of the civil service made by the Cabinet Economy Committee at the beginning of the financial year, and by the Finance Act in the early session of Parliament, were estimated at

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£2,000,000. Further economies to the extent of £1,000,000 a year would, however, be required. They would be effected mainly by a curtailment of services.

Towards the balance I hope (continued the Minister) to obtain £350,000 by drawing still further upon reserves. A large part of the accumulated surpluses of the Consolidated Fund from the war and post-war years was invested in discharged-soldier-settlement mortgages, repayable by instalments over a long period. The £350,000 represents the repayment of principal by the mortgagors that it is estimated will be available during the current year. . . . As regards customs taxation, the tariff rates are already so high that the law of diminishing returns is operating over many of the items. . . . For the rest I am driven to review the position and the possibilities of further direct taxation through the income tax. . . . I take it that these taxpayers would prefer to shoulder further burdens rather than see reductions made in old-age pensions, soldiers' pensions, and pensions for the blind. They would equally resent any suggestion that the State should default in its interest payments. A reduction in pensions may at any time become an imperative necessity if the world's price-levels remain low, but for the purpose of my present computations I have laid this on one side.

As regards the New Zealand company tax, Mr. Stewart reminded the House that it was the heaviest in the British Empire, if not in the world; and as many of the companies were engaged in financing primary industries it was not proposed to tax them further. Individual taxpayers had already had their burdens increased by the main budget from 10 to 30 per cent., but "the receiver of gilt-edged income is called upon in these times to bear his share of the burden. He is more concerned than anyone else to see that the State remains solvent." The Government proposals were :

(1) To impose a special emergency tax on the unearned income of individuals equal to one-third of the income tax payable on such unearned income, and to eliminate the 10 per cent. deduction at present allowed on earned incomes up to £2,000.

(2) To include in the assessments (but only for the purpose of fixing the rate and the general exemption) all tax-free income and income taxed at the source, and to remove the present discrimination

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in favour of income derived from certain local-body and company debentures.

(3) To impose a special flat-rate tax of 4d. in the pound on incomes of individuals, after allowing a general exemption of £500.

The effect of these alterations with the abolition of the graduated land tax would be a net additional yield of about £230,000. It was not proposed to provide any money this year for State advances, but repayments would be available for additional advances. The additional loan capital for public works would be restricted to £4,750,000; so that in these two departments together there would be a reduction of 50 per cent. in the amount borrowed as compared with the last financial year. In conclusion the Minister confessed frankly that

the best way to cope with our problems while conditions are changing so rapidly would be by a financial dictatorship. As that is not politically possible, the next best course is to make provision to meet the position as we find it now, and review it again before the end of the financial year, so that if necessary and if practicable further steps may be taken to check any further drift and maintain stability in our public finances.

The House forthwith adopted the resolutions increasing the duties on tobacco by 8d. per pound and on motor spirit by 2d. per gallon. Incidentally, a strong demand was made for an inquiry into the retail price of petrol in New Zealand, now standing at about 2s. per gallon, and the Highways Finance Committee declared that it was not justified by wholesale prices oversea.

The concessions made to the country as compared with the urban interest incurred the censure of a section of the press, but the decision not to reduce interest rates on mortgages, etc., met with general approval in the newspapers.

On October 7, the day after Mr. Stewart's statement, a battle royal developed over the question of the cessation of railway construction. When the United party came into office at the end of 1928 it was pledged to a vigorous construction policy, and in spite of the recent change in the

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economic position of the railways, and of a strong body of public opinion which is against sinking further large sums in railway works, the Ward Government pushed on vigorously with construction. After Sir Joseph Ward's resignation his successor, Mr. Forbes, felt himself bound by the election promises of 1928, but the deepening depression in 1930 compelled him to view the matter from a new angle, and when the Railway Board was set up in April 1931,* one of its first duties was to consider the advisability of going on with these railways. Its report, which was presented to Parliament on September 10, unequivocally condemned the whole of the new lines. The most important of them was the span between Parnassus and Wharanui, the only gap remaining in the South Island Main Trunk connection between Invercargill and Picton. At present the ferry service between the islands runs from Lyttelton in the South Island to Wellington in the North, a distance of about 200 miles. As the crossing is always effected by night there is no loss of time, and the Railway Board took the view of most business people that, even if the line were completed to the extreme northern point of the South Island, Picton would not supersede Lyttelton as the ferry port. Moreover, the Board believed that the country through which the extension would pass was chiefly pastoral land unsuitable for closer settlement, and that the work was not justified on the basis of either the immediate or the more remote prospects. £415,239 has already been spent on this gap and £2,341,761 would be required to complete it. The Board condemned with equal emphasis the Gisborne-Napier, Waiotira-Dargaville and Okaihau-Rangiahua lines in the North Island and the Kawatiri-Inangahua and Westport-Inangahua lines in the South Island. In no case did the revenue prospects warrant the expenditure, and even the fear of adding to the army of unemployed would not justify continuing the work. To complete all these lines would have cost £5,921,924.

* See THE ROUND TABLE, No. 84, September 1931, p. 926.

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It was not until October 7 that the House was able to discuss this report. In the meantime local interests had declared their objections to it, and in the Parnassus and Wharanui district affected by the scheme for the extension of the South Island Main Trunk a strong movement was organised to influence the decision of Parliament. A monster deputation representing local bodies in the northern part of the South Island—especially in Marlborough province—travelled to Wellington by special steamer, and, headed by a pipe band, marched to Parliament House to interview the members of the legislature. Later in the day, at Mr. Forbes's instance, the Railway Board's report was made a matter of urgency, and he himself moved its adoption.

The position to-day (he pointed out—by way, as it were, of excuse for his previous loyalty to Sir Joseph Ward's policy) is different from that of 1928. A great deal of water has flowed under the bridges since that time. In 1928 we didn't have the world depression. The financial position of this country is right down to the limit, and unless we face the position the end may be disastrous. If the Government went on to the market to raise money for lines which had been condemned by the Railway Board it would have no chance of getting it. They had to face the facts of the present ; it was no use talking of the past.

The Labour party opposed the Government's policy principally on the ground of the hardship it involved to the men who would be thrown out of employment. A few other members voted with them on purely local grounds, but the Government carried the day by a steady majority of about 40 votes to 24 and the railway extensions were abandoned.

The two main taxing Bills (the Land and Income Tax Amendment Bill and the Land and Income Tax Annual Bill) were dealt with as matters of urgency on October 14. By the former of these measures the level of exemption from income tax is reduced from £300 to £260, subject to further reductions which remove the exemption altogether in the case of incomes of £800. Another important innovation in this Bill brought tax free debentures, a considerable quan-

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tity of which were issued during the war, into the computation of income for taxing purposes. Hitherto these securities have been left out of the assessment altogether. Mr. Stewart held the view that the State had contracted not to tax these bonds, and that it would be a breach of contract to impose a direct tax upon them ; but there was no breach of contract, he said, in bringing them in for the purpose of ascertaining the rate at which a taxpayer should be taxed on the part of his income which was taxable. In the case of the other Bill there was a division on the proposal to abolish the graduated land tax, but it was carried by 33 votes to 26, a few Independent and United members voting with Labour.

Of the other measures required to implement the budgetary proposals the most important were the customs resolutions adopted on November 3. Certain changes were made in the duties on tobacco and cigarettes with the idea of protecting the New Zealand industry. The rates on cigarettes made in New Zealand are now 25s. per 1,000 and 10s. per lb., as compared with 33s. 9d. per 1,000, and 13s. 9d. per lb. on the imported article. The reduction of the duty on wheat and flour in accordance with the Government's promise to diminish the excessive protection given to the wheat-growers of Canterbury was authorised ; but members complained that a tax of 200 per cent. on the value was much more than the country could afford in times of reduced income.*

When the Customs Acts Amendment Act was introduced on November 5 Mr. Stewart explained that the increased revenue, amounting to £1,150,000, expected from the amendments in the tariff was composed as follows :

	£		£
Tea	92,000	Chinaware, etc. ..	30,000
Sugar	210,000	Floor coverings, etc. ..	18,500
Tobacco	240,000	Motor spirit ..	180,000
Apparel and hosiery	86,000	Other items ..	71,000
Silks, etc.	42,500	Primage	180,000

* The duty hitherto has fluctuated about 1s. 6d. per bushel. The prices to be paid to farmers for the 1931-32 season's wheat crop were announced on

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The excise duty on beer raised the total to £1,300,000. In connection with the customs it should be mentioned that Mr. Forbes referred during the session to the negotiations with Canada for a reciprocal agreement to end the tariff war that has developed in the last two years.* After the election it was decided that Mr. Stewart, in his capacity of Minister of Customs, should carry on the negotiations, and he left for Honolulu on December 15 to confer there with the Canadian Minister.†

During the latter part of the session the Labour party continued to press for an assurance about the general election, which Mr. Forbes as steadily declined to give. At this time it was the general opinion in the country, founded on remarks made by Mr. Forbes, that there would be an extension of the life of the existing Parliament. The Labour party was, of course, able to base its objection on constitutional grounds; but there is no doubt that it also entertained hopes of substantial success at the polls. Nor were these hopes unreasonable. Under the stress of economic forces, measures were being considered almost every day which menaced one or other of the privileges gained for Labour after hard fighting in better times. At every point the party stubbornly resisted anything in the nature of a reduction of the standard of living. The salary cuts in the civil service it opposed tooth and nail; and at every whisper of a threat to the structure of the arbitration system it rose in arms. Nor have such threats been wanting. Reference has already been made to the repeated demands of farmers' organisations that the farming industry should be entirely exempt from the provisions of the wage-fixing machinery of the Arbitration Court.

December 21 as follows: 4s. 8½d. a bushel f.o.b. Lyttelton, Timaru and Oamaru for flour; 1s. 11½d. for Herring, and 2s. 6½d. for Peat. The millers are reducing the price of flour by 10s. per ton, or 20 per cent. The millers are allowing 10s. per ton reduction on flour to assist in reducing the price of bread.

* See THE ROUND TABLE, No. 84, September 1931, p. 938.

† It is reported that an arrangement has been reached, but, at the time of writing, it has not come before Parliament for ratification in either Canada or New Zealand, and no details have been made public.

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In a prolonged period of prosperity the country was able to stand the additional cost of such restrictions, but depression is a severer test, and a gradually growing section of the public has been inclined to look askance at the system and to wonder whether things would not be better if it were amended. It has, at any rate, been obvious that in the early stages of the present depression many men might have been kept employed for a longer period if it had been possible to reduce wages so as to make them correspond with the reduced returns. The National Industrial Conference in 1928 exhaustively discussed the arbitration system. On that occasion the employers and farmers put forward a proposal that conciliation should be compulsory but arbitration only optional. Labour, of course, rejected this departure from the principle of the original Act. When, therefore, it saw Mr. Jones, an inveterate opponent of the arbitration system, in the Government and this same suggestion of optional arbitration in the supplementary budget, and therefore part of the Government's policy, it felt that the system was indeed in jeopardy. Other factors also tended to strengthen Labour's belief that it would find plenty of support in the country. There was, for instance, the suggestion that pensions might have to be revised. Many of the civil servants, too, a powerful body, were supposed to be ill-disposed to the Government on account of the salary cuts. Then there were the inhabitants of the towns, who as a whole had received less consideration than those of the country; and in all classes of the community there were people who had had heavy burdens of taxation imposed upon them. Labour lost no opportunity, therefore, of pressing its demand that Parliament should be allowed to expire as usual at the end of November.*

* A want of confidence motion proposed by the Labour party leader on October 14, and an amendment with which the Independents intervened condemning the Government more specifically, were defeated by 46 votes to 23 and 46 to 25 respectively.

The General Election

III. THE GENERAL ELECTION

ON October 23 Mr. Forbes at last made a definite statement about the New Zealand elections :

The Coalition (he said) had been formed for a definite period and for a definite purpose, namely, to put measures into effect to enable the country to balance its national budget and to put into operation a policy that would enable the Dominion to surmount the economic difficulties with which it is at present confronted. That could obviously be achieved only by a Government with a stable majority in Parliament, reinforced by a solid backing of the electors of the Dominion ; and therefore the Government had decided to seek the approval of the people in respect of what had been done and to give them an opportunity of extending to the Government the fullest measure of confidence.

Both the leaders of the Coalition appealed to the electors to give it a definite mandate. Though no reference had been made during the session to the British elections, it was generally believed that the result was bound to have a considerable influence on a general election in New Zealand. But the very emphatic verdict that the British electors subsequently gave could not at this time have been anticipated, and the Coalition leaders cannot therefore be held guilty of the charge, sometimes levelled against them, of making party capital out of it. Indeed they took the risk against the advice of at least one shrewd independent organ, and in spite of conditions in New Zealand which obviously weighted the issue against them. The following is a typical comment on their decision :

We cannot (said the *Evening Post*—Independent—on October 24), welcome the decision, but we recognise that it is at least not so fraught with danger as it might have been had the suicidal course of a triangular contest been taken. We are still of opinion that it would have been more courageous and better for the country had the Government chosen to postpone the general election and thus avoid the grave check which must be given to the growth of confidence.

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The *Auckland Star* (Liberal) spoke in much the same sense.

Parliament was prorogued on November 11, and on the same day Mr. Forbes announced that the election would take place on December 2. Normally, there would have been a redistribution of seats following on the quinquennial census, which should have taken place on April 1, 1931. There would also have been a licensing poll at the same time as the electoral poll, but this too was abandoned for a similar reason, economy. The campaign was opened by Mr. Holland's speech at Wellington on November 4, outlining the policy of the Labour party. In it he developed further his scheme for the mobilisation of credit and the creation of a State bank, declaring that

under existing banking laws the Labour party could raise sufficient credit for immediate industrial purposes employing methods somewhat similar to those adopted during the war. . . . The Labour party proposed now to use the national credit for the purpose of economic reconstruction and rehabilitation. . . . A sum of £25,000,000 spread over a three years' period would be sufficient to put the Dominion once again on its feet.

This estimate of £25,000,000 was freely quoted by Coalition speakers as the counterpart of the £70,000,000 which Sir Joseph Ward dangled before the eyes of the electors in the 1928 campaign.

To avoid vote-splitting the Coalition parties supported the sitting member in constituencies held either by a Reform or a United member in the last Parliament, and agreed upon a single candidate to contest other seats. Generally speaking, this agreement was honourably observed, but there were cases in which the candidates previously adopted could not restrain their ambition and insisted on going to the polls. Several seats were in this way lost to the Coalition.

A manifesto was issued by the Coalition leaders pointing out that the income of the people of New Zealand had fallen in the last two years by £30,000,000. The electors had shown their determination to face their crisis

The General Election

with characteristic courage and resolution, but the situation was changing so rapidly that the Government of New Zealand must be given a free hand to meet new conditions as they arose. Their first purpose would be to maintain the national finances on a sound basis. Though taxation was heavy there was no alternative but national bankruptcy. With 50,000 unemployed they were determined to make all relief work productive; but the real task was to absorb the unemployed in normal industry. Various measures of relief had already been taken to help farmers. New markets would be explored, the quality of produce improved, and every opportunity taken to promote reciprocal tariffs and develop Empire trade. As the price of land fell, settlement would be vigorously pushed on with government assistance, and workers in towns encouraged to augment their earnings on small holdings.

The manifesto of the Labour party declared that the decision would be a vital one between the drift, gloom and depression, for which the present Government was responsible, and organisation, development and employment. With proper organisation no family need lose its home and no citizen go short. The Labour party proposed, under the existing banking laws, to raise sufficient credit in New Zealand to develop the national resources by a bold policy. Taxation could not go on indefinitely, and it was impossible to tax one section to keep the rest working part time. The national income must be increased, and credit was the first essential. A "planned production of national requirements" and the "co-ordination of all government departments associated with primary production" were foreshadowed. Labour intended to promote reciprocal trade with Great Britain and other countries, to explore overseas markets, and to endeavour to prevent undue price fluctuation. It would further develop industries such as coal carbonising, flax dressing, and motor car assembling, reorganise the boot, clothing and iron industries, co-ordinate transport facilities and reduce interest and rent.

New Zealand

charges. Finally the party would reintroduce the graduated land tax on large holdings, maintain the arbitration system, and leave intact the existing system of education, hospitals and pensions.

An unpleasant feature of the campaign was the unusual amount of rowdyism at Coalition meetings, though the Labour leaders time and again protested against it, and dissociated themselves from any interference with freedom of speech. When the nominations closed on November 20 there were 185 candidates for 72 seats, as compared with 212 in 1928, but four seats (including those of Mr. Cobbe and Mr. Ransom, "United" members of the Coalition Ministry) were uncontested. As the campaign developed Coalition candidates made free use of the emphatic verdict given by the British electors on the record of the Labour Government, and Mr. Coates claimed that Mr. Snowden's words applied equally well to the situation in New Zealand : "I do not exaggerate (he declared) when I say that the real issue is between prosperity and ruin." Mr. Stewart, too, speaking at Dunedin on November 23, said :

I have never made a statement with a graver sense of responsibility than one I am now about to make. It is my deliberate conviction, based on intimate knowledge, that if the policy put before the electors by the Labour party is given effect to New Zealand will, without question, be faced with national default, repudiation and insolvency. Our resources of revenue are drying up faster than our expenses can be curtailed. The only way by which this drift in our national finances can be checked is by the utmost united effort of the whole nation. If an attempt is made to put into operation the Labour party's policy the working classes of the Dominion will be plunged into unspeakable misery compared with which their present lot—hard as it is—is tolerable.

Although, as we have seen, the revision of the arbitration system was proposed by the Government in their supplementary budget, it found no place in the Coalition manifesto. The Prime Minister indeed denied, at one of his meetings, that there was any intention of abolishing arbitration, but he declared that some reform was impera-

The General Election

tive. "Industry, is," he asserted, "in a strait jacket, thanks to the harassing awards of the Court, and the Government will see that they are done away with."

Mr. D. Jones, too, claimed that

the Government's policy is to provide for compulsory conciliation and voluntary arbitration. A very great number of awards are arrived at to-day under conciliation. We believe that conciliation should be compulsory and arbitration voluntary. We suggest that people of moderate views will meet and that satisfactory agreements will be reached in a great bulk of trades.

While Coalition speakers referred exultantly to the British election, Mr. Holland, the leader of the Labour party, appealed again and again to the traditions of the old Liberal party in New Zealand at the time when Ballance came into power.

Polling was lighter than at the previous election. In the aggregate 82·6 per cent. of the total number of electors on the rolls cast valid votes, as compared with 86·9 per cent. in 1928. Undoubtedly the main reason for the lighter poll was the absence of the licensing issue, but another factor was, no doubt, the reduced activity of the Reform and United party organisations as a natural outcome of the coalition.

The results of the election were as follows :

<i>Government.</i>		1931	New Parliament.
Reform	..	..	28
United	..	..	24
Independent	..	..	2
		—54	—51
<i>Opposition.</i>			
Labour	..	..	20
Independent	..	..	5
Country party	..	..	1
		—26	—29

As a result of the election Mr. Forbes has now a dependable majority pledged to support the coalition under his

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leadership instead of a mixed team containing elements which had not been elected to support him.

While the Labour party's anticipations of heavy gains were not realised, the steady advance of the party since it emerged less than 25 years ago from the Liberal and Labour parties is very marked. Starting with only one member in the Parliament of 1908 it has steadily gained ground until now it commands 24 seats, only two short of a third of the House.

There were no great surprises. One of the Ministers, Mr. D. Jones, lost his seat, Mid Canterbury, to a popular candidate—a United Coalitionist—who had opposed him on two previous occasions, while at Wairarapa Mr. A. D. McLeod, formerly Minister of Lands in the Coates Government, insisted on standing against the United coalitionist member and defeated him. The four Maori members, who are usually evenly divided between the Reform and United parties, are all supporters of the Coalition in the New Parliament.

New Zealand.

December 24, 1931.

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NOTE

THE ROUND TABLE is a co-operative enterprise conducted by people who dwell in all parts of the British Commonwealth, and whose aim is to publish once a quarter a comprehensive review of Imperial politics, free from the bias of local party issues. The affairs of THE ROUND TABLE in each portion of the Commonwealth are in the hands of local residents who are responsible for all articles on the politics of their own country. It is hoped that in this way THE ROUND TABLE will reflect the current opinions of all parts about Imperial problems, and at the same time present a survey of them as a whole. While no article will be published in the interest of any political party, articles may from time to time be published explaining the standpoint of particular parties or sections of opinion. In such cases, however, the character of the article will be made clear by an introductory note.

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I. OPPORTUNITIES OF THE CONFERENCE

IT is barely thirteen years since the independent status of the British Dominions, which had developed during the war, was accorded definite international recognition at the Conference of Versailles. Amid revolutions in every sphere of life, the vast changes upon which the post-war Imperial Conferences have set their seal tend, perhaps, to be minimised by the contemporary vision. Great they certainly are, yet in one field the progress made has been, by comparison, faltering and slow. That the move towards closer economic unity should have been but tentative is not, indeed, surprising, since in the political field the tide has been set firmly towards the devolution of powers and the greater independence of the parts. Moreover, public opinion, especially in the Mother Country, was not ready for any swift advance ; established fiscal policies prevented it ; and the Conferences, preoccupied with other matters, found it all too easy to shelve the uncomfortable problem of imperial preference. To-day, there has been a change. Public opinion is prepared ; Great Britain possesses a wide-embracing tariff which she is prepared to use as an instrument of closer economic relations with the rest of the Commonwealth ; and the Ottawa Conference will have the great advantage of singleness of purpose. Its central task will be the elaboration of tariff preferences, quotas and other measures, so as to secure a larger flow of trade and greater prosperity for every member of the Empire.

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Technical preparation, which is so essential in the economic field, has not been neglected. Preliminary work has been enthusiastically undertaken officially and unofficially, both here and in the Dominions. The Board of Trade has drawn up schedules, designed to show how each Dominion could help the United Kingdom exporter, which have been forwarded to the Dominions for consideration both by their experts and by the Ottawa Conference committees of their Governments; and documents have likewise been prepared in Whitehall to indicate how we can help the Dominion producer. From the Dominions themselves, especially from Australia, come encouraging reports of discussion, consultation, and detailed investigation. Moreover, since the efforts of officials and Ministers must be ineffective without the co-operation and advice of merchants and manufacturers themselves, the prospects of a profitable issue for the Conference have been much enlarged by the decision that government delegations shall be accompanied by business representatives. Great Britain will send six such advisers, nominated by the organisations of industry, commerce, shipping, agriculture and by the trade unions.* It is much to be regretted that no financial expert appears in this list, since, as we observe below, questions of currency and credit are bound to figure in the discussions. It is expected that each of the Dominion delegations will likewise be accompanied by business representatives. Yet vital as the contact between Governments and business interests is bound to be, it will be inadequate by itself in the absence of direct consultation, both now and in the future, between groups of manufacturers in the different portions of the Commonwealth. The imperial rationalisation of industry, which should be one of the primary aims of the Ottawa Conference, cannot be achieved by the deliberations of civil servants and politicians.

* It was announced on May 3 that the advisers would be Sir Gilbert Vyle, Lord Weir, Sir Alan Anderson, Sir Douglas Newton, Mr. J. Bromley and Mr. W. Citrine.

Opportunities of the Conference

The importance attached by the various Governments to the Conference is proclaimed in the list of ministerial delegations. The British delegation will, it is hoped, be headed by Mr. Baldwin, and will include Mr. J. H. Thomas, the Dominions Secretary, Mr. Walter Runciman, President of the Board of Trade, Sir Philip Cunliffe-Lister, Colonial Secretary, and Sir John Gilmour, Minister of Agriculture; Mr. Neville Chamberlain will go too if the business of the Lausanne Conference, which, whatever his personal inclinations, must be his first concern, is completed in time. That is indeed a formidable team. The character of the Indian delegation also deserves remark, for it is headed by an Indian, Sir Atul Chaterjee, and contains but one European, Sir George Rainy; moreover, it includes the leader of the nationalist Opposition. Its composition expresses the recognition, in Whitehall and Delhi, that politically India has come of age and that she may soon have complete charge of her own fiscal affairs. The South African delegation is to be headed by Mr. Havenga, the Minister of Finance, the Australian delegation by Mr. Bruce, the former Prime Minister, the New Zealand delegation by Mr. Downie Stewart, while Canada will possess the advantage of having every member of her Government on the spot. It is, incidentally, of good omen for the success of the Conference that a commercial treaty has recently been concluded between Canada and New Zealand, which roughly speaking restores the *status quo ante* the two years' tariff war in which they had unhappily engaged.

But more important than the personalities will be the policies they represent. In recent weeks Dominion leaders have spoken with no uncertain voice, and in distinctly encouraging terms. Mr. Havenga emphatically denied the charge of the South African Opposition that the Government was apathetic about the Ottawa Conference.

On the contrary (he said), while not entertaining the exaggerated expectations manifest in some quarters, the Government is fully alive

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to the potentialities of the Conference, to which the attention of the whole world is directed in the present turmoil of tariffs and trade restrictions. The solution of problems affecting the Commonwealth may well lead to the revival of trade, benefiting not only the members of the British Commonwealth, but all other countries, whose well-being is essential to the restoration of world prosperity.

We may read into this the satisfactory implication that in South Africa's view the Conference must accomplish the reduction of tariffs and trade restrictions, and if South Africa is unlikely to be able herself to propose any far-reaching plans, her delegates will doubtless keep the Conference in mind of the fact that any attempt to construct an exclusive imperial unit or to effect the prosperity of the Empire at the expense of foreign countries would be disastrous to all.

Wise words have fallen, too, from Mr. Rhodes, the Canadian Minister of Finance. In his budget speech he declared that the forthcoming Conference would afford to the British nations an opportunity unique in their history. If, he said, the delegates met in an atmosphere charged with the determination to approach their deliberations from the point of view of mutual advantage, there would result measures which would give marked stimulus to inter-imperial trade and, besides accomplishing this primary object, would release forces and establish currents which might well flow beyond their borders to the eventual benefit of the world at large. It is clear that the current which must, above all, be set in motion is a reversal of the tide of rising tariffs within and without the Empire. That this may imply a reconsideration of some aspects of their fiscal policy by the Dominions is, apparently, realised by the Canadian Government. Colonel Sutherland, Minister of National Defence, recently warned business men of disappointment ahead, if they thought they could be merely sellers, and were not prepared to purchase British goods as well. How far Mr. Stevens, who, as Minister for Trade and Commerce, will be, after Mr. Bennett, the most important

Opportunities of the Conference

Canadian delegate, is thinking in terms of lower tariffs is, perhaps, more doubtful. In the budget debate he said that the Government hoped, by a readjustment of trade policies and facilities, to give to the Mother Country a larger share of the Canadian market and to buy within the Empire more commodities like rubber direct from the countries of production, and thus open up a larger part of their markets to Canadian exports ; while in a statement on the external trade of the Dominion, after congratulating the country on its resumption of the position of fifth greatest exporting country in the world, he said he anticipated that the present successful trend of their trade would be hastened by the Ottawa Conference. Nothing, however, could be clearer than that no possible success can emerge from the Conference if every participant seeks to enlarge its exports without at the same time increasing its imports. With his eye, no doubt, on the Ottawa Conference as well as on the disastrous results of excessive industrial protection, the Australian Commonwealth Prime Minister, Mr. Lyons, recently advised producers to combine in an endeavour to keep down to the minimum the protection given to industries, subject to the necessity of building up secondary industries essential and valuable to Australia. In the Empire, as in the world, the prosperity of every part depends on the prosperity of the whole. The secondary industrial producers of the Dominions cannot take in each other's washing. Their market is the primary producers, whose purchasing power depends on their ability to sell, which in turn depends on the ability of the great importing countries like Great Britain to find markets for their products. There is a circle of cause and effect which can turn viciously or favourably. The task of the Ottawa Conference is to reverse the vicious tendency it has displayed of late years. "The Empire," as Mr. Latham, the Australian Attorney-General, said the other day in London, "is already a vast system of mutual markets. Within this system, for all parts of the Empire there is political security—in itself a very real

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commercial asset. Within the Empire sentiment and interest march together."

These declarations by responsible Ministers allow us some assurance that the greatest danger with which the Ottawa Conference was threatened—that it would become a mart in which "sacrifice" would be dearly exchanged against sacrifice—will be averted. To ask any Dominion, or Great Britain herself, to relinquish any vital principle of her economic policy for the sake of imperial fiscal arrangements would be not merely futile; it would jeopardise the whole of the good relations that exist among the partners of the Commonwealth. Those principles safeguarded, the condition of the success of the Ottawa Conference—and here we are reiterating the considerations that were elaborated in an article in our March issue*—is that, on balance, it must produce a lower and not a higher level of tariffs. We seek more trade among the countries of the Commonwealth, but not at the price of less trade with others. Every participant in the Conference comes at once as a buyer and as a seller, and comes, moreover, with the knowledge that not even the completest economic union could render the fortunes of the Empire independent of those of foreign countries; but none is more acutely aware of that than Great Britain. Mr. Baldwin recently stated our problem in terms of a choice of paths. "The natural destiny of our country is economic union with our own flesh and blood. If that cannot be accomplished it may well be we shall be driven to look towards Europe." But that is a false contrast, for we could never prosper by an economic arrangement with the Dominions which excluded us from the opportunity of sharing in plans for widening markets in Europe and elsewhere. The war and economic changes have lowered our ambitions, for we no longer grandly aim at being the workshop of the world; but they need not narrow our vision. Imperial myopia is fortunately not a failing of Mr. Runciman. "Highly as we prize the privi-

* See THE ROUND TABLE, No. 86, March, 1932, pp. 251-256.

The Sterling Group

"ages we enjoy," he said at the British Industries Fair, "in the markets of our kinsmen and fellow-Britons beyond the sea, and the extension of their opportunities here; we are also anxious not to lose any opportunity of strengthening our trade relations with foreign countries." Our special economic ties in the Argentine and with Scandinavia need no emphasis, while our vital concern with other parts of Europe has been brought home to us by the inconclusive London Conference on the Danubian customs preference scheme. The Dominions themselves have similar problems; the time may come, for instance, when Canada will wish to negotiate a preferential trade treaty with the United States, to their mutual advantage, and she would justly complain if she were prevented by her imperial undertakings. The British Empire is a convenient unit within which to mitigate tariff restrictions and to stimulate the flow of trade, but it can never become economically exclusive.

II. THE STERLING GROUP

AT this moment the Empire is marked out, along with certain other countries closely associated with it in trade and finance, from the rest of the world by the simultaneous depreciation of most of its currencies, in terms of gold, after the suspension of the gold standard in Great Britain last September. Can we, at Ottawa or as a result of deliberations there, profit permanently by this fact in establishing an Empire currency system, including therein the Scandinavian currencies and others whose dependence on sterling and on the British economic system has become apparent? The idea is one which has appealed to many of our leading publicists, politicians and business men. Moreover, the Canadian Parliament recently resolved that the Canadian representatives at the Conference should initiate and support measures for the stabilisation of the currencies of all British countries in such a manner as to facilitate trade

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between them and to promote the economic unity of the Empire; while in the New Zealand House of Representatives Mr. Downie Stewart, the Minister of Finance, declared his satisfaction that the Ottawa Conference would enable the whole price level problem to be approached from the Empire standpoint, believing, as he did, that concerted action on an Empire scale to raise the sterling price level for primary products might be possible. Since the revival of prices must be far more important both to Great Britain and to the overseas parts of the Empire than the reservation of markets can be, and since tariff measures closely affect the possibilities of monetary manipulation, the general discussion of imperial preferences is bound to raise questions of currency and credit. Mr. Runciman himself, speaking at a London Chamber of Commerce dinner the other day, said that the only way to escape the continuous sag of world prices was for all countries who were linked up with sterling to support each other; that was one of the justifications for making closer union within the British Empire, and afterwards we might well invite other sterling countries to enter into closer relationship with us.

But in no field is it more important to hasten slowly than in monetary organisation, for a currency system, once established, cannot be abandoned without catastrophe. It is clear that neither banking organisation, beset with urgent problems of self-preservation, nor public opinion, shocked by the apparent failure of the existing system to cope with the changes and chances of our post-war life, is ready for a super-central bank, a brand new currency for Empire trade, or any other ideal scheme. Moreover, such is the domination of London in the financial world that the fortunes of the whole new monetary structure would depend upon those of sterling; hence, quite apart from any suspicions which might be aroused in the Dominions, revalorisation of Empire currencies must wait until the future of the pound, whether as a freely managed currency or as linked

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with gold at its old or some new level, can be decided, and that is out of the question until we have had longer experience to indicate its true value. Narrow limits are therefore set upon immediate action, but what might be effected at Ottawa is the *de facto* stabilisation of Empire exchanges—not necessarily permanent, for there is nothing sacred about the present or the former rates of exchange—and closer co-operation between the banking authorities of the Dominions and the Bank of England. Between them they may find means, within the existing system, for accomplishing what Mr. Stewart urges. Looking farther ahead, the importance of international long-term lending in the world's economic system, as revealed by the present trade depression, indicates the need for a consultative loan council for the Empire. But if these things are to be discussed, and it is certain that they will be, the delegates must be accompanied by experts in finance as well as in agriculture, industry and trade.

III. ORGANISATION

THE general conditions of imperial preferential arrangements, as well as the technical details, being so complicated, we should be unwise to hope for a comprehensive series of agreements at Ottawa; it will certainly prove impracticable to achieve very much more than agreement in principle. When the Conference is over, the several Governments of the Empire will formulate their economic policies under the guidance of its resolutions until the time has come to review results and make plans for a fresh advance. But many people feel that imperial relations in the economic and allied spheres can no longer rest merely upon periodical conferences of responsible Ministers. There exists, indeed, a number of permanent imperial bodies, but their status varies, their public estimation is inversely proportionate to their number and

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the specialist character of their tasks, and their work is inadequately co-ordinated. In a report prepared before the 1930 Imperial Conference, the Federation of British Industries pointed out that "it is a regrettable fact that better machinery exists, in connection with the economic section of the League of Nations, for discussing economic problems with foreign countries than is the case with our sister-nations of the British Empire." The Federation therefore recommended that as soon as possible an imperial trade conference of experts should be held, of an investigatory, advisory and non-political nature, with a view to laying down a sound basis for an imperial economic policy; furthermore, that an imperial economic secretariat should be established formed of men with economic and administrative experience, drawn from all parts of the Empire, to act as a permanent secretariat for the Imperial Conferences. A short while ago the General Council of the Trades Union Congress went to the length of sending a formal deputation to the Dominions Secretary to urge upon him the adoption of the policy which the Council put forward before the 1930 Conference, and which took much the same form as that of the Federation of British Industries. Mr. Thomas, in reply, confirmed his "unabated support of the principles contained" in the Council's memorandum.

The scheme thus endorsed by both parties to our industrial system is so bold and far-reaching that one is moved to reflect that our imperial constitution has developed by much less drastic and more evolutionary steps. The surest way to approach this problem is by way of considering the machinery that already exists. The Imperial Economic Committee, comprising representatives of the British and Dominion Governments, and responsible to those Governments, was set up by resolution of the 1923 Conference; the latter proposed for it a very comprehensive scope within the economic field, but, largely owing to the scruples of one Dominion, its actual work was confined for a while to investigations into the marketing of certain Empire

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foodstuffs in the United Kingdom. The 1930 Conference, however, greatly enlarged its terms of reference, which now include, *inter alia* :—

To facilitate conferences among those engaged in particular industries in various parts of the Commonwealth, and to examine and report on any economic question which the Governments of the Commonwealth may agree to refer to the Committee.

The Empire Marketing Board was constituted in 1926 by the British Government to administer a grant voted by Parliament. The 1930 Conference, after surveying the Board's work, passed the following resolution :—

The Conference . . . is satisfied that it is valuable to the Commonwealth as a whole, and recommends its continuance and extension in certain directions, notably in the spheres of market intelligence, statistical surveys and market promotion . . . The Conference commends especially that feature of the Board's policy which aims at the concentration and development in the most appropriate centres of scientific team work upon problems of interest to the Commonwealth as a whole.

The Board, for which an income of £1,000,000 per annum was originally proposed, has spent in the six years of its life some £2,900,000 ; the greater part of it has been used for scientific research and markets investigation, while about £1,100,000 has been devoted to publicity. Grants made by the Board for research and development have covered such subjects as food preservation and low temperature research, animal husbandry, plant breeding, the export of pedigree live stock, and mechanical transport. In the development of markets its efforts have included weekly intelligence services on fruit and dairy produce, the issue of statistical surveys of world production and trade in certain agricultural products, surveys of retail distribution, etc. As a measure of economy, the Board's vote for 1932-33 has been cut down to £300,000.

Besides these two important economic bodies, there are a number of organisations, such as the Imperial Institute,

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the Bureau of Hygiene and Tropical Medicine, the Imperial Institute of Entomology and Mycology, the Executive Council of Imperial Agricultural Bureaux, which in their own respective technical fields are carrying on work for the benefit of the Empire as a whole, often with funds contributed by the Dominions and Colonies as well as by the Imperial Exchequer and private sources. For one purpose or another, most of them have received grants from the Empire Marketing Fund, and their work has been of constant assistance to the Imperial Economic Committee, the Ministry of Agriculture and Fisheries, and other economic bodies. Indeed, the application of scientific research to commercial needs has become one of the most important aspects of imperial co-operation. Undoubtedly the work would proceed with greater economy of effort, and its results would be more fruitfully disseminated, if these institutions were possessed of a common centre for the co-ordination of their inter-imperial work, much of which cuts straight across the administrative and constitutional division into Dominions, India and Colonies. Moreover, the creation of such an organisation would give to each member of the Commonwealth a sense of co-operation in a common enterprise (enabling Canada, for instance, to take an active part in the development of the West Indies), and would concentrate the interest and zeal of High Commissioners and other Empire representatives, which at present is dissipated among a number of institutions, no one of them being in itself comprehensive or important enough to arouse enthusiasm. We are far from suggesting that a new super-institution is necessary. Rather we believe that some of the bodies, say the Empire Marketing Board, the Imperial Economic Committee, the Council of Agricultural Bureaux, might merge their functions while continuing much the same loose connection with the more technical authorities as they possess at present. The problem is not, in these days, one of organising fresh and ambitious development, but rather one of administering

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resources to the greatest advantage of the whole Commonwealth. Lest the extent of the change should be exaggerated, it would be well if the new authority were to adopt the name of one of the existing bodies ; henceforward we shall, therefore, refer to the proposed institution as the imperial economic committee.

The title which we use for convenience is not meant to beg any questions as to the body's structure and membership. The first point to be decided is that of its scope and function. While to some extent they must be left to take shape as the committee wins the confidence of the various members of the Commonwealth, its general field may be described as that of non-contentious co-operative endeavour—already large and, as the Select Committee on Estimates acknowledged, bound to grow steadily “as the value of such co-operation comes to be more and more appreciated.”

In the first place, the committee's terms of reference should cover the present activites of existing institutions such as those listed above, and the normal development thereof. They include scientific research, investigation of markets, commercial publicity, agricultural economics, the promotion of industrial and other technical conferences, the dissemination of scientific knowledge—interpreting “science” in its broadest sense. But, beyond that, the committee should be prepared to undertake any function, within the economic and scientific spheres, that might be laid upon it by the unanimous wish of the several Governments of the Empire. It might, for instance, carry on the work of the present Imperial Economic Committee in promoting the rational division of industrial production between the countries of the Empire, acting in this field largely through the agency of industrialists themselves. One extremely important function which it might soon assume is the co-ordination of Empire statistics, a matter which has received the attention of successive Imperial Conferences without any palpable result, largely because

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the highly desirable centralisation of our own official statistical work has not yet been accomplished.

But the absence of specific restriction upon the scope of an imperial committee should not be interpreted as a licence to embark at once on the grave and controversial business which some of its advocates would regard as its principal *métier*. To suggest, as the Federation of British Industries seems inclined to do, that the creation of such a permanent organisation would "take economic relations out of the political field" is to fly in the face of fact. Fiscal autonomy, by which is meant the unqualified and unquestionable right of each succeeding responsible Government to alter the tariff as it pleases, subject only to properly concluded external treaties, is among the most dearly cherished of the Dominions' privileges. At home, in spite of the change that has come over the political scene and the erection of a general tariff, there is no subject over which the politicians more furiously rage. To make the imperial economic committee responsible for the formulation of tariff preferential policies, in the sense in which the Import Duties Advisory Committee is to be responsible for the formulation of tariff policies in this country, would at once prejudice the whole of its scientific work and alienate the esteem of large sections of public opinion. It would seriously endanger, too, the smooth and amicable working of the committee itself. That is not to say that questions associated with tariffs should be automatically excluded from its purview. The assembly and rationalisation of statistical and other facts concerning some definite aspect of imperial tariff relations would be a proper task for the experts of the committee, if its reference to them was unanimously agreed upon by the interested parties.

Thus limited in its field, the establishment of the committee would not involve acutely those questions of responsibility which have exercised many critics. The Imperial Economic Committee, and the Executive Council of Imperial Agricultural Bureaux, which are responsible to

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the Government of all the participating members of the Commonwealth jointly and severally, perform their advisory and even executive tasks without any serious collision with constitutional difficulties. In these days of specialism and complication in government, it is foolish to try to compress political organisations within the forms and categories of Montesquieu or Mill. The kind of organisation that is suggested is a small secretariat with a permanent head, acting under the authority of a committee representative of the different parts of the Empire, which would assume intermediate responsibility for such executive work as it would fall to the organisation to perform.

It is not suggested that additional expenditure would be necessary to carry out the plan. Neither the overhead costs nor the direct expenses on publicity, markets investigation, economic research, and so forth, need be greater than those at present incurred by the merging bodies. Nor does the establishment of the new committee imply any enlargement of the grants which are now awarded to the technical institutions. It is essential to the success and esteem of the committee as a co-operative enterprise that the Dominions should contribute to its maintenance, but their economic difficulties, which are no less than our own, might ban any scheme involving them in any fresh expense at this moment, so to begin with they might be prepared simply to continue, as block grants, the sums that they now pay direct to the various existing inter-imperial bodies, together, perhaps, with some general contribution. Further, just as the British Government has financed the promotion of the sale of their products in Great Britain, through the Empire Marketing Board, so, when the time comes, it is certainly to be hoped that they will feel prepared to subsidise and conduct the promotion of the sale of Empire goods in their own markets. Again, there will no doubt be some pieces of practical research work which it will be requisite and necessary to conduct in the overseas Dominions—concerning, let us say, fisheries in Canada or

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Newfoundland, or wool husbandry in Australia. In such cases it would be natural that the Dominion particularly affected, within whose jurisdiction the work was being carried out, should bear a considerable part of the expense. A body of practice in financial matters would thus be built up, and later, as the reputation of the organisation grew, the Dominions might prove willing to contribute regular and substantial sums to the general cost.

IV. MIGRATION

HERE is one further question which it might be suggested should come within the purview of the committee, and that is migration. But, unfortunately, that is no longer covered by the description of "non-contentious co-operative endeavour." The problem of emigration has violently and disastrously changed in the past few years. In 1929 the net balance of British passengers departing from the United Kingdom for places outside Europe was 92,537, of whom 67,671 were leaving for other parts of the Empire. In 1931 there was actually a net inward balance of 35,249, of whom 22,858 had returned from the Dominions and Colonies. The distress of some of the unfortunate emigrants who have been forced by adversity to return has received much publicity in this country, especially in the organs of the Opposition. "The hopelessness of the vast Dominion," "Thousands of young Englishmen lining up in bread queues"—these are the phrases upon which the opinion of the electorate is being nourished. A petition was recently presented to the House of Commons, reputed to be signed by fifty thousand British-born people who, having emigrated to Australia, now seek repatriation, complaining in bitter terms of the "extravagant, misleading and in many cases indubitably false" statements with which they were persuaded to emigrate. Whatever truth there may be in these strictures—it is clear that many of them

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are untrue in fact and in inference—the Governments of Great Britain and the Dominions cannot escape all responsibility for past emigration, and they have burnt their fingers badly. For some time to come, therefore, it seems likely that government assistance in this field will be confined to discreet subventions to approved private bodies who will otherwise assume complete financial and general responsibility for their schemes of emigration, and to the resumption of subsidised ocean passages.

That is not to say that the problem can or ought to be avoided at Ottawa. A conference which shirked tasks merely because they were unpleasant or difficult would not hold any hope of real success. Movements of men and movements of goods and capital are tightly linked factors in the world economic system. Advocates of imperial preference in this country frequently claim that although Dominion markets, measured by head of population, are comparatively small, they are expanding through the flow of emigrants, and that their prosperity involves not only wider opportunities for our trade but also an outlet for our excess population. The 1930 Conference declared that the successful solution of the migration problem "depends upon the availability of adequate markets for the products of the Empire and of sufficient capital for the development of its resources." From our point of view in Great Britain, we have regretted that the process of emigration naturally robs us of some of the best, because the hardiest and most adventurous, elements of our population. Critics in the Dominions, by contrast, have sometimes complained, especially in the last few years, that their countries were being used as a dumping ground for the cast-offs of our industrial system. The Ottawa Conference has an opportunity to formulate a wider view of population movements, from the standpoint that the Empire is, or might become, a co-operative economic group with a common purpose transcending its political divisions.

Both sentiment and circumstance favour at this moment

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the realisation of that principle, which is the key to success at Ottawa. The change of feeling both here and in the Dominions we have sufficiently recorded in our previous article. In the economic *mélée* into which the world has been plunged, Empire countries, and especially Great Britain, have been among the first to recover their breath. Now is the chance to make an effort to escape, and at the same time to lead the rest of the world. The inter-dependence of the countries of the British Commonwealth, and their value as an economic group, have been underlined by the simultaneous depreciation and resuscitation of sterling and other currencies of the Empire, but the difficulties of the currency question warn us not to pitch our hopes of the outcome at Ottawa too high. We are seeking to reverse the tendencies of decades. Still, the opportunity is as great as the task, and if we can show the first hints of success we shall have given both example and encouragement to a distressed and leaderless world.

POSTSCRIPT.—Since the above was written, the report of the Committee of the Economic Advisory Council on Empire Migration (Cmd. 4075) has been published. The Committee, after considering the progressive decline in our birth rate, and the likelihood of a gradual readjustment of our industrial life, conclude that "we are now confronted with a profound disharmony between the economic needs of Great Britain on the one hand, and the Dominions on the other, in regard to migration. Now that it might suit us to send large numbers of our people to the Dominions, it does not suit the Dominions to receive them. When the time comes that the Dominions will again welcome immigrants, it may not be to our economic interest to supply the need." Nevertheless, by reason of other factors, not least because "the sense of unity which animates, and is the main connecting link between, the self-governing parts of the British Commonwealth is largely dependent on the preponderance of British stock in the population of the Dominions," the Committee hold that "when the depression has passed"—but not before—"it will again be desirable for His Majesty's Government in the United Kingdom to grant financial assistance on a substantial scale towards oversea settlement within the Empire."

REFLECTIONS ON THE CRISIS

I

IN the tragic drama, the critics tell us, the master-craftsman will interrupt the inevitable progress of his theme to its catastrophe, so that our minds may come to the climax cleansed, indeed, but not exhausted by those emotions of pity and terror which tragedy awakes. We find relaxation and repose, before the ultimate and almost intolerable strain of the tragic ending, through the withdrawal of Lear from our sight or the scene with the gravediggers or the prattle of her son to Lady Macduff.

For twelve months the course of world affairs has followed the authentic construction of tragedy. Blow has succeeded blow, and the world has seen its economic life exposed to the relentless interaction of disintegrating forces. Now, in an interlude of relative calm, it awaits the unfolding of the drama in which its members, "themselves the authors of their proper woe," are the players. When and where the next blow will fall, whether the processes of destruction can be arrested or will exhaust themselves, or by undermining its material foundations will bring down the structure of our modern civilisation in ruins—all these things are wrapped in obscurity. Nothing is certain except that nothing stands still. The world is moving, even though imperceptibly, either towards recovery or away from it.

This may be thought to be the language of despair. We live in an age in which the human race is perhaps more

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instinctively optimistic than ever before in its history. Our own generation has seen such amazing achievements in the conquest of matter, in the subordination of the forces of Nature to the needs of man, that we are apt to overlook not only the delicacy and the artificiality of our economic and financial background, but its ultimate dependence, now as always in the past, on that moral and political sphere in which the progress of the modern world has been so immeasurably less significant.

A political survey of the world to-day discloses little ground for optimism. The crisis has, indeed, confirmed what few Englishmen in their hearts have ever doubted, the genius of their own race and the aptitude of their institutions for government in an emergency. But it has also renewed the old doubt whether in a period of unusual and protracted difficulty the constitutional system and the political practice of the United States are consistent with effective government or lead unfailingly to the spectacle now staged of interminable and profitless wrangling between the executive and the legislature. In Europe we find little but mutual suspicion and unbending nationalism: France, intent on security, a security measured in terms of the weakness of Germany and dependent on the integral maintenance of the peace treaties and the alliances that have grown out of those treaties; Germany, on the other hand, disillusioned and despondent, with no democratic tradition and little faith in democracy, without prospect of a Government founded on general consent, torn between the revolutionary doctrines of communism and the empty and theatrical bombast of the pseudo-fascists. No nation can pursue a consistent or fruitful foreign policy if it has no assurance of stable government at home. With the foundations of government shaken, as in many parts of Europe, the difficulties of international co-operation are intensified and the springs of goodwill and tolerance and enlightenment are dried up. It is, perhaps, a sign of the times, and not a mere idiosyncrasy of the Irish mind,

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that Mr. de Valera should have chosen this moment to cast off the shackles of a decade of friendly co-operation and to put in its place embitterment and isolation.

In the economic sphere, every day provides fresh proof that the nations of the world are economically inter-dependent and that their financial life is built up on confidence. Yet everyday records some new shock to confidence, some other attempt to attain national self-sufficiency. As the fall in prices continues,* its effects are seen to be progressively more serious. The most formidable problems are set when all money burdens remain constant and prices of all goods are lowered. The economic machine is thrown out of alignment and is subjected to strains and stresses which it was not designed to carry. There is dislocation in budgets, dislocation in the national balance of payments, dislocation in the productive organism. The life of nations and of individuals becomes a struggle not to create wealth, but to arrest its destruction. Producers strive to adjust their costs to prices, wage-earners fight against the reduction of their wages, debtors all over the world are submerged beneath the immensely increased burden of their debts, creditors seek to maintain their claims and protect their assets. In the struggle between producers and wage-earners, between debtor and creditor classes, the machine slows down and production dwindles. The industrial production of the world† rose from 100 in 1928 to a peak of 112 in 1929, and by December last had fallen to 80. Total production (1928=100) had dwindled by December last to 69 in Canada, to 87 in France, to 59 in Germany, 60 in Poland, 92 in Great Britain, and 67 in the United States. Production means income, and such figures as these imply a fierce struggle everywhere for the division of a vastly diminished aggregate income.

* Wholesale prices in America have fallen 31 per cent. since September, 1929, and over 6 per cent. since September, 1931. Wholesale prices in the United Kingdom converted to a gold basis have fallen over the same periods by 46 per cent. and 24 per cent.

† Index of the Institut für Konjunkturforschung.

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The first and chief sufferers are the unemployed, then those with variable money incomes or incomes derived from foreign investment, last of all the wage-earners. By the transfer of wealth from the *entrepreneur* to those with fixed money claims, enterprise and development are stifled, the universal dislocation becomes progressive and the struggle is renewed and intensified.

If it was inevitable that governments should seek to intervene in this imbroglio, it is certain that their intervention has on the whole aggravated the process of disintegration. Government action springs from the desire to mitigate necessary readjustments and from the fear of economic changes leading to social chaos. Thus it has seemed to the countries of central Europe vital to maintain the nominal gold value of their currencies because they regarded the social consequences of a second inflation as hazardous in the extreme. Exchange control, import quotas and restrictions are the natural instruments of that policy. Exchange control to be effective must be complete, and to be complete necessitates the control of all economic activity. The economic life of Germany to-day is effectively managed not by industry nor even by the State, but by the Reichsbankdirektorium, and the result is to tighten the noose that is strangling production. Again, in the effort to achieve a positive balance of payments, every country finds it easier, in a world in which there are no buyers, to reduce imports than to increase exports. But one country's imports are the exports of another, and this general forced abstention from importing must in the long run bring all international trade to an end. If pursued, it cannot fail to reduce the whole standard of our civilisation.

II.

HOW is the world to escape from this impasse? The economic disorder is due primarily to the rapid fall in prices, and it is clear that a general rise in prices to the level of 1928-29 would be by far the most powerful and universal remedy. Leaving for a moment the question whether anything can be done to stimulate such a rise, let us look at the alternative. It is that the world should go through a long agony of adjustment to a lower price level, with all that it involves—the writing down of indebtedness of every kind, internal and external, the reduction of wages and other fixed incomes. This process can be seen operating to-day, but it would need to be carried a great deal further. It would mean repudiation by governments, drastic reorganisation of the capital of public companies, statutory lowering of interest rates and fixed charges, as in Germany. It would bring with it increased unemployment and a general lowering of the standard of life, and no one can foresee what social consequences would follow in their train. On every ground the alternative to a rise in prices is one which no class and no nation can contemplate with equanimity.

But to ask how a rise in prices can be brought about is to plunge into one of the classical controversies of the economists. There are those who would have us believe that our economic life is entirely dominated by monetary factors, and that the central banks, even though through ignorance or perversity they may deny it, have it in their power to produce a trade boom or a trade depression by the simple and infallible expedients of cheap or dear money. Others would allow monetary factors a quite secondary rôle, and would maintain that money follows trade, not trade money. In other words, that an over-production of commodities leads to a fall in prices and that prices will

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rise again only when the statistical position encourages buying for a rise—in such controversies truth often lies roughly midway between the extremes. The layman finds it difficult to believe that if central bankers are omnipotent, able men should have practised that profession for so long without discovering the fact. It is not a normal characteristic of any profession to undervalue its own importance in the world. To the layman, again, it must appear unlikely that the abundance or scarcity of credit is without influence on the moment at which the speculative buying of commodities will begin, and private enterprise feel justified in entering upon constructive works of capital improvement. But if wisdom lies in the mean, we shall incline to the view that the operative factors are many and their interactions extremely complex, and for that reason we shall be cautious in announcing panaceas.

Certain facts in the situation stand out. The first is that world stocks of many of the principal commodities are exceptionally large. Of that the following table is sufficient indication.

WORLD STOCKS OF PRIMARY COMMODITIES

	At Beginning of 1929	At Latest Date	Date
American cotton	3,494,000 bales	8,760,000 bales	April 1, 1932
Copper	292,000 tons	623,000 tons	October 1, 1931
Tin ..	25,000 tons	61,500 tons	April 1, 1932
Rubber	266,000 tons	644,000 tons	March 1, 1932
Sugar ..	4,422,000 tons	8,641,000 tons	March 1, 1932
Coffee ..	15,703,000 bags	34,179,000 bags	March 1, 1932
Wheat	565,000,000 bushels	542,000,000 bushels	December 1, 1931

It is true that stocks are held to-day to a quite exceptional extent by the producer, for the reason that merchants and consumers have lived from hand to mouth. In that respect, the technical position is favourable for a rise, once confidence is restored and buying begins. But when we consider these figures, and others like them, when we are told, for instance, that there is in the world a stock of

Chilean nitrate equal to three and a half years' consumption, we are bound to acknowledge the existence of a formidable obstacle to an early or rapid rise in prices. A second fact which we cannot overlook is that the power of Great Britain to influence the course of world prices by its monetary policy is not the same as that of countries, such as the United States, which have remained on the gold standard. Any appreciable rise in prices in America must have world-wide repercussions through the gradual redistribution of the gold stock. In theory at least, a rise in sterling prices should lead to a fall in the gold value of sterling and be without any certain and direct influence on prices outside those countries which follow sterling and not gold. But in the conditions of to-day, it is clear that relative price levels are not the only determining factor in exchange rates. The present strength of sterling, for example, is due in part to large movements of capital resulting from a revival of our world prestige in recent months and from distrust of other currencies; and in such circumstances there is reason to believe that the exchange could be held even against an appreciable rise in sterling prices. As a nation we have an overwhelming interest in the revival of world trade, and that interest demands that we should exhaust every means in our power, by low money rates and a reasonable expansion of credit, to help in raising prices in the area in which the influence of sterling is dominant.

But even if our own authorities and those of the United States actively pursue a policy of cheap money, it is essential to remember—and this is our third fact—the importance of political and psychological factors in the present situation. Throughout the world there has been a breaking down of confidence. The world as a whole has lost faith in international co-operation; America has written off Europe and Europe America; many nations have come to mistrust or to despise the governments and even the political institutions under which they live, others are

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suspicious, often with good reason, of their banking systems. A succession of scandals, not confined to any nation and culminating in the Kreuger affair, has so shaken confidence in the larger business undertakings of our time as to threaten, often by false analogy, the whole modern trend towards rationalisation. Monetary policy can do little to restore confidence, yet prices are not likely to rise nor trade to revive without it. It will return in any event only gradually and with faltering steps, and to assist it on its way is the most pressing political task of the moment.

Governments can exert a great psychological influence in two directions—by discarding functions for which they are unfitted and by working for a settlement of outstanding international problems. Modern economic organisation is admittedly imperfect, but it is never so imperfect as when governments attempt to direct it. Their intervention is haphazard and it is, in a business sense, irresponsible, since it is subject to no penalty for failure. Much of central Europe to-day is within hailing distance of the Soviet system, which requires all foreign trade to be in the hands of the State. There is no half-way house between that system and private enterprise, and the only result of the attempts by governments to regulate private enterprise in times of crisis by exchange control, quotas and similar restrictions is that they prevent the economic organism from exercising the power inherent in it of correcting its own excesses. Trade cannot again flow freely until currencies are allowed to find their own level, and it seems probable that others will be compelled to follow the example of Greece in abandoning the pretence of a gold parity which has lost all reality.

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III.

WHEN governments turn to their legitimate function of political appeasement, they soon find that incomparably the most difficult international problem of our time is that of Franco-German relations. It penetrates into every nook and cranny of European politics, and the failure of Europe to solve it has contributed more than any other factor to the estrangement of Europe and America. The abortive French plan for a limited Danubian federation is an admirable illustration of what is meant by these statements. The succession States of the old Austro-Hungarian Empire, with the possible exception of Czecho-Slovakia, are all in varying degrees economically and financially embarrassed. Their budgets are unbalanced, they are either in default on, or find difficulty in meeting, the service of their external debts, and if they have contrived to maintain a precarious adherence to the gold standard it is only by the exploitation of every known device for the control of exchange and at the cost of the virtual abandonment of foreign trading. They are the victims not only of the fall in prices but of the disruptive provisions of the peace treaties. The history and the details of the proposed Danubian plan are in some respects obscure. It appears to have originated in a suggestion of the British Government that the Danubian States should re-establish the *Zollverein* which existed under the old Empire. The suggestion was resisted and M. Tardieu then came forward with his Danubian plan.

In outline the French proposal, which covered Czecho-Slovakia, Austria, Hungary, Jugo-Slavia and Roumania, was that those countries should establish reciprocal preferences to the extent of 10 per cent. of existing tariffs; that certain countries outside the group, notably Germany and Italy, should grant the Danubian countries preferential entry for their agricultural products, without any direct

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advantage in return; and that a loan of \$50,000,000 should be raised on the guarantee of the lending countries (presumably France and England) and spent, under international control, for the protection of the budgets and the exchanges of the Danubian group. These proposals foundered after two days' discussion at the London Conference, owing to the refusal of the outside Powers, and in particular Germany, to abandon their most-favoured-nation rights. Probably from every point of view it was better that they should founder. The plan was too narrowly restricted in scope to bring much lasting benefit even to the Danubian countries. It involved expensive palliatives in the form of fresh loans for dubious objects. It would have strengthened the French hold on the Little Entente and would have reinforced the political with the economic isolation of Germany.

When the Lausanne Conference meets in June, it is to consider not only reparations but also the plight of the Danubian States. The Conference can do more than any other single agency to restore confidence and thus to launch a revival of world trade; it can also postpone that revival indefinitely. In a sense the problem of reparations has solved itself, since a renewal of reparations payments is not in sight. But what the world needs is not acquiescence in a temporary default, but a lasting settlement as part of an honourable *modus vivendi* between France and Germany. It is idle to speculate on the prospects of the Conference. All but the strongest governments are the servants of their public opinion, and it seems unlikely that either France or Germany will be represented at Lausanne by a government drawn from an assured and durable majority in Parliament or the country. This is one reason the more why it is right that the British Government and, if his health permits, the Prime Minister, should continue to exert in favour of a settlement all the influence which in such situations can properly be claimed by those who have vital interests at stake and are yet essentially disinterested.

IRELAND AND THE TREATY



EDITOR'S PREFACE

AN account of what has been happening in Ireland since Mr. de Valera's accession to power will be found in the article from the Irish Free State that follows. In this preface we give our own view of his action with regard to the Anglo-Irish Treaty of 1921, and the Irish Land Annuities, and of the course to be followed by the British Government.

First to deal with the oath, the form for members of the Oireachtas* was set out in Article 4 of the Treaty.† From the British standpoint, the essence of the Treaty was that Ireland should remain in the British Commonwealth of Nations, and the oath was the earnest of her intention to do so. Her status was to be that of the Dominions, and her position in relation to the Imperial Parliament and Government, and otherwise, that of Canada. Due effect was given to the provisions of the Treaty in the Irish Free State constitution. Article 17 reproduced verbatim the oath clause (Article 4 of the Treaty) and prescribed the time and manner of taking the oath for every member of the Oireachtas. Article 55 imposed the same duty on Ministers who happen not to be members of the Oireachtas, and therefore are not covered by Article 17. Up till now the oath has been taken by both Ministers and members alike, including Mr. de Valera himself and the members of his party. The Treaty has been loyally kept by both sides for the last ten years.

At the instance of Mr. de Valera, however, the Dail has now passed a Bill to delete both Articles 17 and 55 from the constitution and thus abolish the oath. It

* The Irish Parliament.

† For the actual words see page 503 of the article that follows.

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has done more. Section 2 of the constitution gave the Anglo-Irish Treaty the force of law and provided that, in the event of any conflict between its provisions and those of the constitution, or of any amendment or law passed under the constitution, the Treaty should prevail. The Bill would also delete this section, and the words in another Article (50) limiting amendments to those which do not infringe the Treaty.

These are vital alterations, and they have been deliberately introduced—Mr. de Valera has himself told us so—without any previous consultation with the British Government, the other party to the Treaty. In our opinion, Mr. Thomas is right—"the Bill is nothing less than a repudiation of the settlement of 1921 as a whole." It cannot be justified by the Statute of Westminster, or anything else that has happened since the Treaty was signed. When that Statute was before the House of Commons last November, the British law officers gave it as their considered opinion that the binding character of the Treaty would not be altered one jot or tittle by passing it. It is Professor Berriedale Keith's view* that, notwithstanding the Statute of Westminster, as the Constituent Assembly of the Free State definitely enacted that the Treaty is superior to any provision of the constitution, and of any amendment thereof, the Oireachtas cannot legally pass any enactment which runs counter to the Treaty, and that any such measure would have to be held invalid by the Irish Courts as a mere matter of law. But, even if the Statute of Westminster had removed the obstacles in the municipal law of Ireland to her breaking her word by deleting the provisions in her constitution which gave effect to the Treaty, it would still have left that Treaty absolutely intact between England and Ireland. Obligations of good faith would still have stood in the way of the course taken by Mr. de Valera. As Mr. Cosgrave, then President of the Executive Council of the Irish Free State, reminded Mr. MacDonald in a letter

* See the *Manchester Guardian* of May 2, 1932.

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which was read to the House of Commons in November, "we have reiterated time and again that the Treaty is an agreement which can only be altered by consent."

What then should Great Britain do in this dilemma, which has been thrust upon her? Our people have the friendliest feeling towards the inhabitants of the sister island, and there is nothing we desire more than good relations with them. At the same time, our Government could hardly shut its eyes to so deliberate a breach of agreement, and go on as if nothing had happened. It is, moreover, Mr. de Valera's intention that more shall happen, and his action with regard to the oath is merely a first step. He announced in the Dail, at the second reading of the Bill to alter the constitution, the readiness of his party to lead the Irish people on to complete independence, as soon as they are ready, and his acceptance of the invitation to Ottawa would merely seem to indicate a desire to get the best of both worlds until the final step is taken. A suggestion was made in the House of Commons that we should consult with the Dominions, and a question which involves a risk of the Commonwealth losing a valued member must obviously be brought to the notice of the Imperial Conference. But that is a very different thing from asking the Conference to decide what we ourselves ought to do in a case which primarily concerns Ireland and ourselves alone. The responsibility of making up our minds could not fairly or effectively be put upon others. As the Secretary for the Dominions replied when the suggestion that we should consult the Dominions was put to him, "it is a difference between two parties to an agreement. One of the parties has repudiated it. There is no more to be said."

In our opinion, we should take our stand upon the Treaty and wait, confident that the Irish nation, in whose good faith we shall continue to believe, will return to it. Meanwhile our Government has, we consider, adopted the only course that was open to it. If Mr. de Valera's Bill should pass through its remaining stages into law, it

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would obviously be impossible for the British Government to enter into any new agreement with a Government in Ireland which has so deliberately broken an existing one. Thus, as Mr. Thomas has indicated, no further agreements can be made at Ottawa, nor can there be an agreement for the renewal of the preference given to the Free State under the Import Duties Act when that preference expires in November, while an agreement so fundamental as the Treaty is deliberately repudiated.

The retention by Mr. de Valera of the Land Annuities is a different matter. It too arises out of the Anglo-Irish settlement, but it raises no vital constitutional question, and although Mr. de Valera's attitude was unbending at first, he appears to have adopted a more reasonable one since Mr. Thomas's letter of April 9. From his statements indeed one gathers that he had never seen the 1923 and 1926 agreements, signed by members of the British and Free State Governments; these make it clear that the annuities are to be collected by the Free State and handed over to the British Government, which has to pay the interest on the stock representing the original loans by means of which the tenants were enabled to purchase their farms. Mr. de Valera has now told a representative of the Associated Press that "the whole question is to be re-examined in view of the agreement between the British Government and the Irish Free State Government dated 1923, and brought to light by Mr. Thomas."^{*} In the event of reconsideration failing to convince Mr. de Valera, although we consider that the British case is beyond dispute, our Government should, we think, be prepared to submit this particular question to arbitration under the scheme adopted by the last Imperial Conference for settling differences between members of the British Commonwealth.[†]

* See *The Irish Press* of May 2, 1932.

† See the official summary of the proceedings of the Imperial Conference, 1930.

IRELAND AND THE TREATY

I. THE RESULT OF THE ELECTION

ALTHOUGH the result of the Free State election undoubtedly surprised the outside world, it was not unexpected by close observers of Irish politics.* The fact that Mr. Cosgrave's Government was the oldest in Europe was perhaps its greatest handicap. Few administrations can hope to survive the accumulation of dislike engendered by ten years of resolute and impartial government, particularly in a country like Ireland, where envy and hatred of those in office or authority are peculiarly prevalent. Moreover, the Government itself did not act with much tact, and justified the humorous comment of a friendly cynic, that it contained several statesmen but only one politician, namely, Mr. Cosgrave himself. Just before the election it announced its intention of making substantial reductions in the salaries of the primary school teachers and the Civic Guards, which these influential bodies, with representatives scattered all over the country, naturally resented. It committed another and more serious blunder by launching at the same time a State prosecution for seditious libel before the Military Tribunal, set up under the Public Safety Act, against Mr. de Valera's newly established paper, *The Irish Press*, and its editor, Mr. Frank Gallagher. The charge arose out of the publication of articles and statements alleging ill-treatment of political prisoners by the Civic Guards in western Ireland. The hearing occupied eleven days, and over fifty witnesses were examined. Such a case naturally presented a splendid opportunity for pleading justification of the statements

* See *THE ROUND TABLE*, No. 86, March 1932, p. 374.

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published, and gave Mr. de Valera's party a fine opening for political propaganda, of which it fully availed itself. In the result, although the defendants were fined £100 each, the evidence justified the editor's action and discredited the C.I.D. department and its head. In any event ordinary common sense ought to have indicated to the Ministry that the eve of a general election was not the time to embark on what might certainly be described as an attempt to stifle public criticism of their police activities.

But, quite apart from these blunders, the election results clearly indicate that the people as a whole desired a change of Government, and would, in any event, have ensured it by their votes. The first preference votes were as follows : Fianna Fail, 566,325 ; Cumann na nGaedheal, 449,779 ; Independents, 124,513 ; Labour, 98,263 ; Farmers, 34,989. The result of an election under universal suffrage may justly be described as a verdict based on the collective wisdom of the ignorant, and this election is no exception to this definition. In effect, the people desired to get rid of the Cosgrave Government and to give Mr. de Valera a chance of governing, but under severe limitations as regards power and policy. Remembering that the Labour party is essentially pro-Treaty, though anti-Cosgrave, the first preference votes seem to show a majority of 55,307 votes against the Cosgrave party, and a majority of 41,219 votes against a policy designed to break the Treaty. The following table shows the results of the five general elections which have taken place since the establishment of the Free State, and the steady increase of Mr. de Valera's party vote :

	Fianna Fail	Cumann Na nGaedheal	Labour	Farmers	Indepen- dents
1922	36	58	17	7	10
1923	44	63	14	15	14
1927 (June)	51	46	22	11	22
1927 (Sept.)	57	61	13	6	15
1932	72	56	7	4	13

The Result of the Election

It will be seen from the above that the present Fianna Fail party is the biggest single party ever elected to the Dail. It also shows that both Labour and the Farmers' parties have lost seats progressively to the larger parties, and even the Independents are now much diminished in numbers. As Labour now supports Fianna Fail, and the Farmers and Independents in effect support Cumann na nGaedheal, the effective state of the parties is roughly as follows : Fianna Fail, or de Valera bloc, 79 ; Cumann na nGaedheal, or Cosgrave bloc, 73. These figures are not quite exact, because a couple of the Independents have at the moment given conditional support to Mr. de Valera, and two of Mr. Cosgrave's party have died since the election. The total number of votes polled in the election was 1,274,156, being 104,000 more than the previous highest poll in 1927. This increase was characteristic of every constituency except Clare, Mr. de Valera's own seat, and proves that a genuine public interest was taken in the result. The Fianna Fail party headed the poll in twenty-one out of the twenty-nine constituencies into which the country is divided, and there can be little doubt that but for the proportional representation system of voting its gains would have been far greater. One fancies that the members of the late Government, who advocated the abolition of P.R., have now changed their minds. Apart from Dublin University (Trinity College) there were no uncontested seats. The percentage of spoiled votes was negligible. Fianna Fail secured a member for every 7,900 votes polled, and Cumann na nGaedheal one for every 8,040 votes polled, proving that P.R. gives a result in which there is a close approximation in the values of the votes cast for the two main parties. With the exception of Mr. T. J. O'Connell, the leader of the Labour party, all the party leaders were elected, including every member of Mr. Cosgrave's Cabinet. But no party secured a clear majority of votes or seats.

The election was conducted throughout in a serious and

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orderly manner, and there was an entire absence of disturbance or intimidation on February 16, when the polling took place. The only tragic incident, which had no political significance, was the shooting of Mr. Patrick Reynolds, a member of the last Dail and a Cumann na nGaedheal candidate in the election, and the detective officer who accompanied him, by a police pensioner with whom Mr. Reynolds had had a private altercation at the latter's house. This event, which took place on February 14, after the nominations were complete, necessitated the postponement of the election in the Sligo-Leitrim constituency, where Reynolds was a candidate, and the meeting of the new Dail had to be altered from March 2 to March 9, in order to permit this election to take place.

During the election Mr. Cosgrave and Mr. de Valera made whirlwind tours of the country, assisted by the motor car and loud speaker. The publicity campaign of the Cosgrave party was better managed than that of their opponents, and was concentrated principally on large advertisements in the Irish papers which gave in graphic and condensed form the record of the Cosgrave Government and their rivals. The most effective and pithy poster was that entitled "His Master's Voice," which represented Mr. de Valera walking forward with an armed gunman holding a revolver to his back, and the most amusing a circus playbill headed "Devvy's Circus : Absolutely the greatest road show in Ireland to-day," and featuring Mr. de Valera as "The world-famous Illusionist. Oath-Swallower and Escapologist. See his renowned act escaping from the strait jacket of the Republic."

One of the planks in Mr. de Valera's programme is a pledge to revise all army pensions that have not been granted for disability. There are about 3,000 of these pensioners, whose pensions total about £150,000 per annum, and on February 26 Mr. de Valera's paper, *The Irish Press*, referred to a rumour that two members of Mr. Cosgrave's Cabinet were plotting with these pen-

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means to bring about a *coup d'état*. This suggestion was immediately described by Mr. Cosgrave as "grotesquely untrue" and only to be explained "by a disordered imagination or a guilty political conscience." In a further statement issued on the eve of his leaving office Mr. Cosgrave admitted that the verdict of the electors meant that Fianna Fail should get an opportunity of trying out their policy, and accordingly the machinery of State, adequate in every part, would be handed over to them. He added that the difficulties which would confront the new administration were mainly of their own making, a fact which would become increasingly manifest even to them. While, however, the new Opposition would not deny them any reasonable facilities, it would not shirk its duty as a parliamentary Opposition by being a consenting party in discrediting the national honour, nor look silently on while the country's economic problems, in a period of world-wide depression, were being made the sport of politics, and its resources frittered away upon unsound and fantastic schemes. Their efforts in Opposition would be directed to the ends they had steadily pursued during the last ten years—the establishment and the maintenance of national dignity, national prosperity, and national good faith.

II. THE NEW GOVERNMENT AND ITS POLICY

AS a prelude to the discussion of the present political situation in the Free State, it is desirable to state briefly the aims and policies of the various parties. Fianna Fail, or the moderate republican party, led by Mr. de Valera, aims eventually at complete separation from Great Britain and the establishment of an independent republic, but it is content to achieve this object by easy stages and by democratic methods. For the moment it claims only a limited mandate within the scope of its election programme, namely, to abolish the oath of allegiance and retain the

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land annuities.* Its economic programme aims at effective protection for all Irish goods manufactured in Ireland, the decrease of unemployment, and the decentralisation of industry.† Cumann na nGaedheal, or the constructive nationalist party, led by Mr. Cosgrave, stands for the maintenance of friendly relations with England, the observance of the Treaty of 1921, the co-equality of all States in the British Commonwealth, and, above all, for the enforcement of the people's democratic decisions. Its economic policy may be described as one of scientific protection for suitable industries and the full development of our agricultural industry by improving its standards and output. The Labour party is principally interested in schemes for the provision of employment, the increase of old age pensions, and other measures of social reform, and is only remotely concerned with such questions as the oath of allegiance, which it does not regard as of vital importance. The small Farmers' party, hitherto attached to Cumann na nGaedheal, is purely interested in agricultural matters, and is likely to vote as the interests of its followers dictate. The Independents are a heterogeneous group without any definite leadership or policy, but chiefly representative of the business interests, the Protestant minority, and the old Unionist party. They include the members representing Trinity College, and their general tendency is to support a conservative policy, and to uphold the Treaty. Outside the Dail, and refusing to take part in its proceedings, is the extreme republican party, which may be divided into two parts, political and military. The political wing is represented by Sinn Fein, an organisation largely controlled by Miss Mary MacSwiney, which believes that the government of the country is still vested in the members of the Second Dail; and the military wing by the Irish Republican Army, or I.R.A., composed of the younger men who do not neces-

* See THE ROUND TABLE, No. 74, March, 1929, p. 379 *et seq.*, and No. 80, September, 1930, p. 820.

† See the Appendix.

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surely follow or obey the political wing. The I.R.A. has, in the eastern portion of the country, a distinctly Communist tinge, and Saor Eire, one of its satellite bodies, is definitely of that colour. All these extreme republican parties stand for the immediate establishment—if necessary by force of arms—of an All-Ireland republic, embracing not only the Free State but Northern Ireland, and the complete denunciation of the Treaty and abolition of the Free State Constitution. It is somewhat ironical to reflect that their policy is derived, through the abstract principles of the French Revolution, from the writings of the English political philosopher Locke, who was the English champion of the Orange cause, rather than from Irishmen like Swift or Burke. But the fact that the ghosts of Emmet and Wolfe Tone, who first advocated these theories, still confront one at every political corner in Ireland cannot be denied and must not be overlooked by anyone who wishes to understand the mentality of our political extremists.

The first step of the new Dail, when it met on March 9, was to elect as Speaker Mr. Frank Fahy, a Fianna Fail deputy from Galway, in place of Mr. Michael Hayes, the Speaker in the last Dail. Mr. Hayes was beaten by only two votes, as many members apparently felt that it would have been better to preserve continuity in such an office. Mr. de Valera was then elected President of the Executive Council by a majority of 13 votes, and, after obtaining the formal sanction of the Governor-General, who attended at Leinster House for this purpose, he announced that the new Executive Council would be composed as follows :

President, and Minister for External Affairs, Mr. Eamon de Valera ; Vice-President, and Minister for Local Government, Mr. Sean T. O'Kelly ; Minister for Lands and Fisheries, Mr. P. J. Ruttledge ; Minister for Industry and Commerce, Mr. Sean Lemass ; Minister for Finance, Mr. Sean McEntee ; Minister for Agriculture, Dr. James Ryan ; Minister for Defence, Mr. Frank Aiken ; Minister for Justice, Mr. James Geoghegan, K.C. ; Minister for Education, Mr. T. Derrig ; Minister for Posts and Telegraphs, Senator Connolly.

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The names of the new Ministry were approved by the Dail without a division. Like Mr. Cosgrave's Government, the new Executive Council is on the whole composed of young men. Its leader, Mr. de Valera, is just fifty, having been born in New York of a foreign father and an Irish mother in the year 1882. He spent his childhood in County Limerick, and was educated in Dublin, where he took his university degrees, and became a teacher of mathematics. He took part in the Rebellion of 1916 and was sentenced to death, but this was commuted to penal servitude for life, and he was subsequently released in June 1917, whereupon he was at once elected M.P. for East Clare as a republican candidate. He helped to organise the Sinn Fein movement, and was elected its president in October 1917. When Dail Eireann was brought into being on the secession from the British Parliament after the general election of 1918, he was elected President of the Republican Government. Subsequently he went to the United States to seek recognition and funds for the Irish movement. In November 1920 he returned to Ireland, and in 1921 took part in the negotiations which led up to the Treaty. He refused to go to London for the final negotiations, and eventually repudiated the agreement arrived at there. His weak attitude at this time was generally believed to be chiefly responsible for the disunion and civil war which ensued, as without him the extreme element would not have been able to obtain any serious public support. He took part in the civil war, but as a follower rather than a leader, and subsequently emerged to found the Fianna Fail party in 1926 and to enter the Dail as its leader in 1927. Mr. Sean T. O'Kelly was one of the early members of the Sinn Fein group in the Dublin Corporation, where, like Mr. Cosgrave, he served his apprenticeship to public affairs. He also represented the Sinn Fein party in Paris, and was the leader of the delegation that sought to place the Irish case before President Wilson during the Peace Conference. Mr. P. J. Rutledge

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is a solicitor from the west of Ireland who took an active part in the civil war. Mr. McEntee is an engineer and a patent agent who also took part in the rising of 1916. So did Mr. Lemass, who was then only 17, and who is regarded as the coming man of the Fianna Fail party. He is a clear speaker, and is reputed to be reasonable in his views. Dr. James Ryan is a doctor with agricultural tastes like many of his confrères in the Free State. Mr. Frank Aiken was a prominent republican leader in the Anglo-Irish struggle and the civil war; in his new post as Minister for Defence he commands some of his former opponents. Mr. Derrig was also a prominent fighter in the civil war, and is a teacher by profession. Mr. James Geoghegan, K.C., never took any part in politics until he emerged from the Law Library to contest Longford-Westmeath in 1930 as a Fianna Fail candidate.

It is not surprising that the first act of the new Government, composed as it is largely of ex-political prisoners and fighting men, was to release immediately all the militant republicans who had been sentenced by the Military Tribunal, and its second to suspend the operation of the Public Safety Act, thus automatically abolishing the Military Tribunal and removing the ban imposed on the I.R.A. and kindred organisations. The release of the prisoners was celebrated by immediate demonstrations in Dublin and by parades of the I.R.A. throughout the country on Easter Sunday in celebration of the 1916 Rebellion. At these gatherings the speakers were careful to emphasise the fact that in spite of such concessions the I.R.A. must continue its work and would not rest until it had achieved its final object, the restoration of an All-Ireland republic. At the military parades on Easter Sunday it was noticeable that the demonstrators did not carry arms, and that no volleys were fired over the graves of the dead republicans where the demonstrations ended. No member of Mr. de Valera's Government took part in these processions, and the Free State army was confined to barracks in order to avoid any

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chance of friction. It is well to remember that the I.R.A. was definitely condemned last October by the Catholic Hierarchy as "a sinful and irreligious organisation" of which no Catholic can lawfully be a member, and several of the I.R.A. speakers attacked the bishops in their public addresses. It is believed that Mr. de Valera has privately endeavoured to persuade the I.R.A. to moderate their irreconcilable attitude, but they are not likely to be satisfied with any concessions he can offer. He believes that once the oath of allegiance is removed from the constitution the extreme elements will recognise the Government and enter the Dail; but the Sinn Fein party, in a public statement issued immediately after the election, informed him that he "and the other prospective Ministers of His Majesty, George V, may remove as many oaths and tests as they wish, but they will never induce republican Ireland to accept the shameful position of surrender and subservience represented by membership of the Free State Parliament, which is not Dail Eireann," and they go on rather cruelly to state that their attitude cannot be better given than in the words spoken by Mr. de Valera himself at Tralee as recently as August 16, 1925, when he said :

If we were to take the advice which some people have offered us, to admit defeat and consent to take our places in the twenty-six-county Parliament, what would happen is that we would have added our strength to the strength of those who accepted the Treaty in pulling away the people from their national ideals. Our business is to stand fast and firm, and fast and firm we will stand, even if we are reduced to the last man.

It is the recollection of statements such as this that explains Mr. de Valera's fervent anxiety to abolish the oath, which is in effect the permanent evidence of his own degradation in republican eyes. But if it is impossible for Mr. de Valera to satisfy the extreme republicans, it is equally impossible for him to satisfy the Labour party, on whose support his parliamentary position rests, because they have already announced that they will only support

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him so long as his Government carries out a Labour programme, involving the expenditure of large sums on unemployment grants, old age pensions, housing, and social legislation, and does not subordinate these to political aims.* The Labour party state that they will continue their opposition to the oath of allegiance, but as they have taken it without protest for ten years, and as it was not even mentioned in their political programme, it is difficult to understand what this statement means. One of their members, Mr. P. Hogan, T.D., has been elected Deputy Speaker of the Dail.

Immediately the election results indicated the certainty of Mr. de Valera's election, he began to make statements and give interviews to the press on the subject of his policy. He stated that to get rid of the oath of allegiance they had only to eliminate it from the constitution, as it was not made obligatory by the Treaty, and that England had no right to interfere. They also intended to retain the land annuities, to which, he said, England had no legal claim. These statements were accompanied by protestations of friendly feelings towards England, and willingness to negotiate trade agreements with her. The words of the Treaty concerning the oath are contained in Article 4, and are as follows :

The oath to be taken by members of the Parliament of the Irish Free State shall be in the following form : I . . . do solemnly swear true faith and allegiance to the Constitution of the Irish Free State as by law established and that I will be faithful to His Majesty King George V, his heirs and successors by law, in virtue of the common citizenship of Ireland with Great Britain and her adherence to and membership of the group of nations forming the British Commonwealth of Nations.

Having regard to these definite words it is difficult to understand how an intelligent person like Senator W. B. Yeats, who must be presumed to have read the Treaty, could make the statement that it omits to state that any person

* See the Appendix.

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must take the oath. The three preceding Articles provide that the law and constitutional usage of the Dominion of Canada governing the relationship of the Crown shall apply to the Irish Free State. Article 17 of the Free State Constitution, after stating that the oath in the above form shall be taken by every member of the Oireachtas (*i.e.*, the King, the Dail, and the Senate), goes on to provide that "such oath shall be taken and subscribed by every member of the Oireachtas before taking his seat therein before the Representative of the Crown or some person authorised by him," and it is this article which Mr. de Valera proposes to remove from the constitution, which removal he apparently maintains does not occasion a breach of the Treaty. It is strange that he should discover that the oath on account of which he helped to plunge the country into civil war, and which he afterwards stated was an "empty formula," is not mandatory having regard to the Articles above cited. His contention would seem to be that the Treaty should have provided that the oath must be taken by members of the Dail and Senate and that the existing words give them the option of taking no oath at all.

When the Dail resumed its sittings on March 15 Mr. de Valera stated that the Government intended to remove the oath from the constitution, and the moment that that was done he believed there would be no excuse for any citizen to refuse to give willing obedience to the law instead of coercion, but he went on to say that they stood for "one Government and one army." The frightful things that were supposed to happen the moment a Fianna Fail Government came into power had not taken place and the peaceful change of Government had been a wonderful thing for the country. He might have added with truth that this peaceful change would have been impossible but for Mr. Cosgrave's work during the last ten years. The contention of Mr. de Valera's Government as regards the land annuities is in effect that they are not legally due to Great Britain, since under the Government of Ireland Act 1920 they were

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to be retained by Southern Ireland, and are in fact now retained by Northern Ireland under the same Act. They refuse to recognise the financial settlement of 1926 between the Free State and Great Britain on the ground that this arrangement was arrived at only between the respective Governments and was never ratified by the Free State or English Parliaments. In this opinion they are supported by a number of learned lawyers to whom they submitted the matter, although a number of equally learned lawyers advised Mr. Cosgrave's Government to the opposite effect. These land annuities are annual payments made by the Irish farmers in order to repay the sums lent to them for the purchase of their land. The money is collected from the farmers by the Free State Government, and, as regards the land purchased before the Treaty, is paid over to the British National Debt Commissioners to meet the service of the loans raised for that purpose. The figure involved is about £3,000,000 a year and the sum still to be met about £76,000,000. This sum Mr. de Valera proposes to apply to finance a scheme of derating designed to assist the small and productive farmers. It may be asked why he does not propose to remit these payments altogether, as indeed the extreme republicans have already promised to do. The reason why he cannot take this far more attractive course is because he must continue to collect the annuities on the large amount of land purchased compulsorily since the Treaty under the Act of 1923, since the Free State exchequer itself must finance this transaction, which has been carried through by the issue of land stock instead of the payment of cash to the landlords. It is obvious that the Land Commission could not remit the annuities of the tenants who purchased before the Treaty of 1921 and collect those of the tenants who purchased since the Treaty without creating an impossible situation. It is difficult, however, to see what legal claim the Free State Government has to collect and retain the annuities on the land purchased before 1921 if they are not applied in

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discharge of the original debt, and this view is evidently shared by the farmers themselves, because the number of defaulters has increased materially during the last few months, and is likely to increase further in the near future. If the annuities are not paid, the central government deducts the arrears from the grants in aid of local taxation, and so the ordinary ratepayer has to bear the loss, a process which cannot be continued indefinitely, and which may easily lead to a general strike against local taxation.

III. THE BRITISH GOVERNMENT'S INTERVENTION

NATURALLY the British Government could not continue to maintain silence whilst Mr. de Valera imparted his proposals to every foreign press correspondent and broadcast them to America, and little surprise was felt when Mr. Neville Chamberlain, in a speech on March 18, stated that any suggestion that obligations or agreements, solemnly entered into by the two countries, could be repudiated or varied by either side as though it concerned that side alone would cause the British Government the gravest concern, and, if seriously pursued, would undoubtedly revive bitterness and differences which it was hoped had been removed for ever. Subsequently on March 22, owing to an inquiry received from Mr. J. H. Thomas, the Secretary of the Dominions, a statement of the intention of the Irish Free State Government with regard to the oath was issued by Mr. J. W. Dulanty, the High Commissioner for the Irish Free State, in London.

The Irish Free State Government (this statement declared) held that the oath was not mandatory in the Treaty, and that they had an absolute right to modify the constitution as the people desired. Furthermore, it was their view that, the constitution being the people's constitution, anything affecting it belonged to internal sovereignty, and was a purely domestic matter. But, besides these legal and constitutional considerations, there was another and paramount consideration more than sufficient in itself to make the Government's decision final and irrevocable. The people have

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declared their will without ambiguity. The abolition of the oath was the principal and paramount issue before the electors. The oath had been the cause of all the strife and dissension in the Irish Free State since the signing of the Treaty. The people, and not merely those who supported the present Government, regarded it as an intolerable burden, a relic of mediævalism, a test imposed from outside under threat of immediate and terrible war. The new Government had no desire whatever to be on unfriendly relations with Great Britain—quite the contrary. But the British Government must realise that real peace in Ireland was impossible so long as the full and free representation of the people in their Parliament was rendered impossible by a test of this character.

On the same day, speaking in the Free State Senate, Mr. de Valera reiterated his intention to remove the oath and retain the land annuities, but laid stress on the fact that his Government desired to remain on the friendliest possible terms with Great Britain. His claim to have a mandate to do these things was strongly disputed by Senator Milroy, one of Mr. Cosgrave's party, and the figures already quoted in this article show that no real decision on these questions was given at the election. In fact, the new Dail contains a clear majority, and the Senate a majority of at least two-thirds, for the Treaty, although the Labour party is supporting Mr. de Valera in his proposal to abolish the oath, believing that it can be done with impunity.

On March 23 Mr. Thomas, on behalf of the British Government, addressed a note to Mr. de Valera in which he stated that in the opinion of his Government it was manifest that the oath was an integral part of the Treaty made ten years ago between the two countries, and hitherto honourably observed on both sides. As regards the land annuities the view of his Government was that the Free State Government were bound by the most formal and explicit undertaking to continue to pay these annuities to the National Debt Commissioners and the failure to do so would be a manifest violation of an engagement which was binding in law and in honour on the Irish Free State, whatever administration might be in power, in exactly the same way as the Treaty itself was binding on both countries.

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On April 5 Mr. de Valera, replying on behalf of the Free State Government, stated that whether the oath was or was not "an integral part of the Treaty made ten years ago" was not now the issue. The real issue was that the oath was an intolerable burden to the people of the Free State and that they had declared in the most formal manner that they desired its instant removal. The agreement of 1921 gave effect to what was the will of the British Government. It was directly opposed to the will of the Irish people, and was submitted to by them only under the threat of immediate and terrible war. For Ireland it has meant the consummation of the outrage of partition, and the alienation of the most sacred part of our national territory with all the cultural and material loss that this unnatural separation entailed. British maintenance parties were still in occupation of some of our principal ports, our coastal defence was still retained in British hands, and Britain claimed the right, in times of war or strained relations with a foreign Power, to make demands upon Ireland which, if granted, would make our right to neutrality a mockery. After further references to the results of the Treaty, Mr. de Valera proceeded to state that his Government must maintain that the elimination of the oath was a purely domestic concern and necessary for the peace, order and good government of the State. The competence of the Free State legislature to pass such a measure was not open to question, and had been expressly recognised by the British legislature itself. With regard to the land annuities his Government desired to know what was the formal and explicit undertaking to continue to pay the sums mentioned in the British note. In conclusion, Mr. de Valera expressed the opinion that friendly relations between the peoples of their respective countries could not be established on pretence but only on the solid foundation of mutual respect and common interests, and would long ago have been thus established had the forces that tended to bring us together not been interfered with.

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by the attempt of one country to dominate the other. In a further note, dated April 9, Mr. Thomas, on behalf of the British Government, pointed out that the views expressed in Mr. de Valera's despatch went far beyond the issue originally raised and made it clear that the repudiation of the whole settlement of 1921 was involved. The British Government had entered into that settlement with the single desire that it should end the long period of bitterness between the two countries, and it was their belief that it had brought a measure of peace and contentment that would not have been reached by any other means. Further, as the direct result of that settlement, the Irish Free State had participated in, and contributed to, the notable constitutional developments of the last few years, whereby the position of the Dominions as equal members with the United Kingdom of the British Commonwealth of Nations, under the Crown, had been defined and made clear to the world. It was true that the 1921 settlement did not result in the establishment of a united Ireland, but the Treaty itself made the necessary provision for the union at that time of the two parts of Ireland, if both had been ready to accept it. As to the future, there could be no conceivable hope for the establishment of a united Ireland except on the basis that its allegiance to the Crown and its membership of the British Commonwealth continued unimpaired. The British Government stood absolutely by the Treaty. With regard to the land annuities, whose origin and nature he described, he stated that the formal and explicit undertakings referred to by the British Government were contained in the Financial Agreement of February 12, 1923 and the Ultimate Financial Settlement of March 19, 1926, under which the Free State Government undertook to pay to the British Government at agreed intervals the full amount of the annuities accruing due from time to time under the Irish Land Acts 1891-1909. In conclusion, Mr. Thomas pointed out that, whilst it is the sincere hope and desire of the British Government that

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friendly relations should continue between the peoples of the United Kingdom and the Free State, those relations cannot but be impaired by any failure in the complete fulfilment of obligations deliberately undertaken.

Speaking at Ennis on April 10, Mr. de Valera said that the people had emphatically declared their will to abolish the oath of allegiance to the British Crown as the first step in the new march to independence and unity. It was a purely domestic matter in which they could not tolerate interference. They were eager to establish relations of real friendship with the British people, but they must be relations of complete equality. Great Britain had formally abjured the claim that she so long unjustly made to have any voice whatever in their domestic concerns. The fault would be theirs if they submitted to anything that would mean the revival of that claim. Their national honour was at stake in this matter. Ireland was not a British colony. It was one of the oldest nations in the world with all the rights of nationhood. Unlike the British Dominions, they could not admit, and had never freely admitted, that their right to sovereign independence was derived from a British Statute. The frank and final acknowledgment of that right was the one basis upon which real and permanent agreement between the two countries could be secured.

It is obvious from these statements that Mr. de Valera's mind has, for all practical purposes, not advanced beyond the year 1921, and that he is still thinking in terms of the Treaty discussions and the atmosphere which then existed. The position of equality which he demands has been already achieved, as the British Government points out. The oath in itself is now really only the symbol of Commonwealth unity, and as such can of course be abolished, but its abolition seems undoubtedly to involve a denunciation of the entire Anglo-Irish Treaty, of which it is an integral part. Mr. de Valera also seems to be ignorant of the fact that no British Government will ever again raise a finger to coerce Ireland, and that when he seeks to abolish the

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until he is only engaged in a sham fight. But it seems also certain that the Free State cannot leave the British Commonwealth politically, and remain in it economically. It might be more honest for Mr. de Valera definitely to proclaim his Government's intention to secede from the British Commonwealth, instead of waiting to be pushed into that decision by the I.R.A. or the force of events. If his Government feel that they have no mandate for taking that course, as in truth they have not, let them definitely consult the people of the Free State, by referendum or otherwise, on the issue of secession. Such a decision, which, at least if carried out without extremist intimidation, could not be said to be taken under the threat of "immediate and terrible war," might perhaps be treated as decisive for this generation, and we could then hope to escape at last from the anti-English complex which still apparently dominates our national mentality. The present situation is bad for us and bad for England too, but it cannot be cured by the abolition of the oath or the non-payment of the land annuities. That the questions at issue have caused anxiety not only to England and Ireland but also to the other States of the Commonwealth was made clear by the messages sent to Mr. de Valera early in April by the Prime Ministers of South Africa, Australia and New Zealand respectively, expressing grave concern at the developments that have taken place in Anglo-Irish relations, and hoping that a satisfactory solution may be found. Mr. de Valera's replies record appreciation of these friendly communications and reiterate the points made in his communications to the British Government. In considering Commonwealth relations it must not, however, be forgotten that the position of Ireland, as a parent nation, is fundamentally different from that of the other Dominions, and that we have a long and unbroken national existence which they cannot claim. On the other hand, we should not forget that the Irish people have played a great and important part in their development. The attitude of

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Mr. Cosgrave and his party was made clear at a meeting in Dublin on April 5, when a resolution was passed unanimously pointing out the achievement of the Cosgrave Government, and adding that the only limitation or qualification on Irish independence now existing was the political division of the country. The party recorded its vigorous opposition to any policy, which, by depriving the Free State of the advantages it possessed as a member of the British Commonwealth of Nations, would not only endanger it economically, but would destroy the hope of national reunion, and also to any policy which would endanger the Treaty, since such a policy would lessen the security afforded to the people by that settlement, would lower the repute of the State, and would greatly reduce the power to negotiate international agreements satisfactorily in the future with Great Britain or any other State.

Mr. Cosgrave's party have suffered a serious loss through the tragic death of Captain William Redmond, D.S.O., the only son of the late John Redmond, who threw in his lot with them during the election. Although, like the sons of most great men, he had not his father's ability, and although he was handicapped both by bad health and by the destruction of the Irish party and its policy by the Sinn Fein movement, he nevertheless served his country unselfishly and maintained the noble traditions of his name. He was a fine speaker, and served with distinction in the great war. Had Mr. Cosgrave been returned to office, it is almost certain that Captain Redmond would have been given a place in the Government. If he had supported, instead of opposing, Mr. Cosgrave in June, 1927, when he led a party of eight members, his political career might have been very different, but unfortunately he missed the opportunity to consolidate moderate nationalist opinion which then presented itself and did not recur.

The Removal of the Oath

IV. THE REMOVAL OF THE OATH

WHEN the Dail reassembled on April 20 after a few weeks' adjournment, the Government's first step, in accordance with Mr. de Valera's oft-repeated pledges, was to introduce the Bill for the removal of the oath of allegiance from the constitution. The text of the Bill revealed the legal difficulties inherent in Mr. de Valera's programme, because not only does it amend the constitution by the deletion of Article 17 which prescribes the oath, but it also deletes the words in Article 50 which provide that amendments to the constitution must be within the terms of the Treaty, and Section 2 of the Constitution Act itself, which provides that the constitution shall be construed with reference to the Articles of Agreement for the Treaty, which are thereby given the force of law, and that any provision in the constitution or any amendment thereof, or law made thereunder, which is repugnant to the Treaty, shall be void and inoperative. The necessity for these consequential amendments would seem to prove that Mr. de Valera's view that the abolition of the oath does not infringe the Treaty agreement is not shared by his legal advisers. The formal introduction of the measure was enlivened by a candid and courageous speech from Mr. F. McDermott, a young Independent deputy for Roscommon belonging to an old Irish family, who declared that the fundamental question was : 'did they or did they not regard themselves as members of the British Commonwealth of Nations ?' In either case the present Bill was wrong. On the assumption that the Free State did consider itself a member of the partnership, the Bill was a breach of international good manners—apart altogether from the question of good faith. If the Free State did not consider itself a member of the Commonwealth the Bill was totally inadequate to make the position

clear to the Irish people or to the world at large. It contained ambiguities which would be extremely bad for the reputation of the country abroad, and would be dangerous from the point of view of internal peace. If they did not wish to remain in the Commonwealth let them go out of it like men. "We are an ancient race with noble traditions," said Mr. MacDermott. "Do not let us behave like gutter-snipes." If the Bill was passed, he declared, he would introduce a Bill requesting the Government to take immediate steps to remove the Free State from the British Commonwealth.

The second reading debate began with an unexpected and significant prelude. Mr. de Valera's motion to take the entire time of the House for the Bill was objected to by Mr. Morrissey, an Independent deputy, whose resolution dealing with the urgency of the unemployment problem was on the order paper. He challenged a division, which resulted in a defeat for the Government by a majority of eight votes, a result which proves that the Labour members, who voted with Mr. Morrissey, consider that steps to remove unemployment are more important than the abolition of the oath. The speeches made during the debate were on familiar lines. Mr. de Valera argued that his proposal was in no way a violation of the terms of the Treaty, and that, as the Free State was admittedly one of the co-equal partners of the British Commonwealth, the Oireachtas were entitled to remove the oath without the concurrence of any other authority. He would not therefore be drawn into negotiations on the matter. The moment the people were ready to stand for an independent republic the Government would be ready to lead them. Mr. Cosgrave moved as an amendment that,

believing that the rights and liberties and the economic freedom and privileges assured to the people by the Treaty of 1921 are placed in jeopardy by the Bill, the Dail declines to give it a second reading pending negotiations between the Executive Council and the British Government on the question at issue.

The Removal of the Oath

He described the Bill as one of the greatest pieces of political chicanery in history, and argued that purely legal action of a unilateral character in respect of an international instrument would not commend itself to the representatives of any other nation. The Bill did affect the Treaty—an instrument alterable only by mutual agreement between the parties to it. Although many members of the Opposition had no liking for the oath, they disliked equally the manner in which it was sought to have it removed. One of the best speeches during the debate was made by Professor O'Sullivan, Minister for Education in the Cosgrave Government, who said that it was not because the Bill amended the constitution that it was opposed, but because it repudiated the Treaty. If England had attempted anything even approaching the present Bill within the last ten years they knew what the attitude of every party in the country would be. They had always denied England's right to interfere with the Treaty. Were they going to claim the right to change and repudiate it? Why, he asked, was it that the interests of the majority in the country must be always sacrificed to the determination of a small minority that was not even represented by the Government party? Mr. Dan Breen enlivened the proceedings by stating that, as one of those who went out to kill Lord French, as the King's representative, in 1919, he made no apology, and would do the same, if the occasion arose, to-morrow.

The Bill finally passed its second reading on April 30 by a majority of six votes, and will no doubt pass the remaining stages in the Dail. It must then go to the Senate, which, under the constitution, has the power to reject it, but such action would only delay its passage for eighteen months, unless Mr. de Valera went at once to the country, as he would certainly do, and was returned again to office, in which event the Bill could be passed within sixty days. There are sixty members in the Senate, of whom at least two-thirds are definitely opposed to

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Mr. de Valera's policy, but it may be doubted whether they will have sufficient courage to reject the Bill, and even if they have the courage it may also be doubted whether it would be the best tactics to do so. They may legitimately take the attitude that as the Dail, directly elected by the people, has chosen to pass the Bill they can take the consequences, and so leave Mr. de Valera in his present uncomfortable position. Certainly if he was returned to power as the result of a fresh election he would immediately, as his newspaper has not obscurely hinted, take steps to abolish the Senate, which he has always denounced as an undemocratic and useless body.

If then and when the Bill finally passes what will be the position of the Irish Free State? Upon the answer to this question will depend the future of Mr. de Valera's Government. If the British Government confines itself to the polite protests already made and does not treat the abolition of the oath as implying the Free State's resignation from the rights and advantages of membership of the British Commonwealth, then Mr. de Valera's position will undoubtedly be strengthened and he will proceed to another election in which the issue will be the entire revision of the constitution. His followers boast that if he is then returned with an independent majority he will make short work of the I.R.A., if it ventures to challenge his authority. In such an event there would seem to be little doubt that Mr. de Valera could count on several years of office. He might even be able to forget the Treaty, and would undoubtedly seek to establish profitable economic relations with Great Britain.* It is quite certain that if he succeeds in abolishing the oath with impunity Mr. Cosgrave's party will suffer virtual extinction, at least for the time being. If, on the other hand, the British Government faces the issue at once and treats the abolition of the oath as a definite repudiation of the

* See the Appendix for the economic position as between Great Britain and the Irish Free State.

APPENDIX

Treaty and a deliberate step towards accession, with all the political and economic consequences that must follow therefrom, the de Valera Government will be compelled to explain the result to the angry people of the Free State, who will, in that event, have occasion to remember the unpleasant and generally forgotten fact that history always repeats itself.

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APPENDIX

The Economic Position

The principal facts concerning trade relations of the Free State with Great Britain were given by Mr. William Peters, the English Trade Commissioner, in an address delivered in Dublin on March 7. He pointed out that in 1931 the total external trade turnover of the Free State amounted to about £88,000,000. Exports accounted for £37,000,000 and imports for £51,000,000. Less than £1,000,000 worth of goods were re-exported, the £36,000,000 odd remaining represented Free State goods, and of this sum exports to the United Kingdom accounted for £35,000,000, exports to all other countries little over £1,000,000. After allowing for re-exports, the actual value of United Kingdom goods sold to the Free State in 1931 was £32,000,000. In other words the sales of Free State goods in the United Kingdom exceeded by several million pounds per annum the sales of United Kingdom goods in the Free State. This was the case not only in 1931 but for all the preceding years. The trade in live stock between the Free State and the United Kingdom was the largest of its kind in the world. On the average each agricultural holding in the Free State sends every year something like two head of cattle, three head of sheep and pigs, and three head of poultry to the United Kingdom. This represents £12 per head of the population, or £60 for the average family of five persons. The Free State does 96 per cent. of its total export trade with the United Kingdom, but the slightly smaller exports of United Kingdom goods to the Free State represented under 8 per cent. of the total United Kingdom export trade. It is to be noted that Mr. de Valera's Government have already announced their intention of attending the Ottawa Conference, and that in the numerous provisional tariffs imposed since they took office—on cut

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flowers, agricultural machinery, potatoes, boots and shoes, clothes, cream, motor-car bodies, and shovels—the usual imperial preference has been given. On the other hand, they count on the fact that the Free State is one of the few considerable customers with whom Great Britain maintains a favourable balance of trade, to prevent the British Government from using economic pressure against them.

Unemployment

The Government's policy for the relief of unemployment, which was one of the principal planks in their election programme, has proved to be still very vague, and the various government departments have been apparently asked to meet the deficiency by formulating schemes which are to be co-ordinated by the Government into a general plan. It seems that this plan will eventually comprehend the development of housing and roads, the creation of new industries and the extension of existing industries as the result of tariffs, and the increase of tillage by compelling the millers to use native wheat. All of these suggestions, except the last, were in process of development under the Cosgrave administration. It may also be pointed out that the statistics issued by the International Labour Office show that unemployment increased last year in the Irish Free State by only two per cent. The new Government also propose to decentralise industry by fostering rural industries. For instance, they aim at having many small flour mills scattered over the country instead of a few large port mills in convenient places, and they are believed to have taken steps already to discourage an English milling firm from developing the Irish port mills in which it is interested. Their general attitude towards foreign capital, and particularly English capital, is likely to be defensive and suspicious, but they are already beginning to discover that even Irish capital is a shy bird, which is not likely to undertake large commitments under present conditions, and that unemployment cannot be permanently decreased by State action alone.

The economic difficulties to which the political situation may give rise are best indicated by the statement issued to their employees by Messrs. Jacob, the well-known and progressive Dublin biscuit manufacturers, in which they point out that if the Free State leaves the British Commonwealth they will be compelled to reduce their employees in Dublin by 50 per cent., or over a thousand persons; and by the warning of Sir Percival Perry, the Chairman of the Ford Company, that recent political developments in the Free State had occasioned his company grave concern—a statement which would seem to indicate that the future of the Ford factory at Cork (which employs some thousands of men) is hanging in the balance. The Government have also imposed a levy of 2d. a pound

Appendix

on all butter manufactured in, or imported into, the Free State, and will apply the revenue so derived to subsidise the export of butter at a rate not exceeding 4d. a pound. As more than 60 per cent. of the Free State butter is still manufactured on the farm, and as very little of this farm-made butter is exported, the result will naturally be a heavy tax on the farmers who make their own butter and on our urban population who consume it. The number of officials required to collect the tax can be left to the imagination. Apparently the inspiration for this scheme is to be found in recent Australian legislation.

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THE UNITED STATES: A YEAR OF DESPAIR

THE financial section of the *New York Evening Post* for Saturday, April 30, 1932, carried the following items as one day's news:—

Further scattered liquidation of stocks in the final session of the week today resulted in an extension of the stock decline into new low ground for the bear market.

Led by speculative railroad issues, bond prices today penetrated into new low ground for the bear market.

Renewed selling in basic staples this week indicates that liquidation has not yet run its course in the futures markets. Although many commodities are now selling far below average production costs, prices broke through previous resistance points to establish new low levels for the year.

On May 1, the *New York Times* published its index of business activity for the week ended April 23. The combined index of freight car loadings, steel mill activity, electric power production, automobile production, and cotton cloth production reached the lowest figure of these depression years, being 58 per cent. of normal.

Lo! the dry bones of the spectre which is called deflation! But perhaps they can be made to dance a bit by the injection of a few more figures. *Similia similibus curantur*. Our stock market averages are conventionally divided into three groups, industrials, rails, and utilities. During the past two weeks, the United States Steel Corporation, giant among American industrials, has passed the dividend on its common stock after showing a loss of \$13,000,000 for the first three months of 1932; the Pennsylvania Railroad, the country's largest railway system, has deferred its common dividend, marking the first inter-

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reception in payment since 1847; and three related utility companies, Insull Utilities Investments, Corporation Securities Company and Middlewest Utilities Company, all the creation of Samuel Insull, have gone into the hands of the receiver, with book assets totalling more than \$1,300,000,000. Probably it is no wonder that stock prices "went into new low ground for the bear market."

But what does this mean to the investor? I do not have in mind the misguided brother who bought American and Foreign Power at \$199 per share and can't get more than \$3 for it to-day; nor the one who put his funds into the first-named Insull enterprise at \$146 a share and will have to take 40 cents a share for it on the Exchange to-morrow. These misfortunes are fantastic. I am thinking of my friend who retired from business in 1929, at the age of 62, with \$220,000 for investment. He had a fancy (those were the Belshazzar days) to have a quarter of a million safely invested in the highest type of equities—New York City bank shares. So he borrowed a mere \$30,000 and bought as many shares at \$25,000 would buy in each of ten leading New York banks. To be specific: he bought shares of the Chase National Bank of the City of New York, National City Bank of New York, Guaranty Trust Company, Irving Trust Company, Brooklyn Trust Company, Central Hanover Bank and Trust Company, Manufacturers Trust Company, Bankers Trust Company, Chemical Bank and Trust Company, and The Manhattan Company. He bought them because he believed that the economic progress of the United States could not be interrupted; he held them, through these nerve-wracking three years, because he believed that "prosperity was just around the corner." He kept them pledged, those beautiful engraved certificates, against his loan of \$30,000. And when, on April 30—Spring in the air and the magnolia trees in bloom in Central Park—their market value declined to \$30,000, down from \$250,000, the bank from whom he held the loan sold him out—to protect themselves. Not

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an institution on the list had failed, their published statements for the quarter ended March 31 showed their assets to be more liquid than they had ever been in banking history. They were actually paying dividends to yield 8·72 per cent. on the market price. But my friend got sold out. That night he hired a room high up in a mid-town hotel, and the next morning, early, they found his body in the street. He left a note behind, quite an intelligent note, in which he said that he was sixty-five years of age, with no job, and with no prospect of finding one ; that he had a wife and an invalid daughter with no possibility of supporting them. By realizing on his insurance in this summary fashion he could provide his family with the means for living life out. He apologized for the suddenness of his action ; but he suspected that the insurance companies themselves might be getting a bit rocky, and he thought that it would be best for his wife and daughter to be in a position to collect the proceeds of his policies before these companies, too, became insolvent.

What is this ? Is it supposed to be an indictment of somebody for buying shares when they were too high ? Or an attack on creditor banks for calling their clients' loans ? Not a bit of it, not a bit of it. You asked what difference it made if the percentage of normal electric power consumption for the week ended April 23 declined from 71·8 to 70·8. And I was merely saying that I didn't know much about it myself, but that it seemed to make some difference to my friend.

II.

INDUSTRIAL activity has declined so far that there are eight million wage earners out of work in the United States to-day. Except for the meagre purchases which they can make with their savings and with the limited amount of money which is provided for their needs through charity, the country is utterly deprived of their purchasing

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power. And as the "deflation" continues, the number of unemployed increases, savings deposits disappear, and charitable contributions are more difficult to obtain. During the past winter, in New York City alone, the relief agencies compiled a list of 750,000 unemployed; it is likely that the whole number of people out of work was nearer to a million. Some forty million dollars was found for relief; half represented the voluntary gifts of private individuals and corporations, half was given by the City and the State. All of that money has now been spent, and no one knows where to turn for further funds except to the taxing and borrowing power of the State and City governments.

To these eight million who have lost their buying power in the general collapse of industry, there must be added as many more, engaged in agriculture, who have roofs over their heads, to be sure, and the means of providing their families with some food, but have no cash to spend on their many other needs. Wheat, cotton, beef, milk, butter and eggs are selling in primary markets for less than the cost of production. Just as certain shares are selling at less than the value of their net quick assets, just as certain sound bonds are going at receivership prices, just as copper is being marketed today at two-thirds of its production cost, so the farmer is converting his produce into dollars at a loss. The story is told of a Canadian woman who trucked four dozen eggs twenty miles to Moose Jaw to market. Nobody really wanted to buy, so finally, for the sake of cash, she took five cents a dozen for them. Then, feeling the need of something to eat before the long trip home, she went to a lunch room and ordered two fried eggs. Her bill came to twenty cents. Having accomplished these two transactions under the auspices of our economic system, she drove back to the farm, where, no doubt, she found it difficult to explain to her husband how the law of supply and demand had worked in her case.

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In the year 1929, in the United States, a vast number of people were throwing away money in order to acquire corporate securities, real estate, manufacturing plants, motor cars and radios. That we called a boom. In this year, 1932, about as large a proportion of the population are throwing away corporate securities, real estate, manufacturing plants, motor cars and radios in order to acquire money. This we call a panic. The first phase of the gigantic cycle was accelerated by greed : the second phase is accelerated by fear. It is obviously in society's interest to prevent such precipitous swings in the cycle ; but they can only be effectively prevented when society has found a sure way to set limits to the fruits of greed and to the consequences of fear. 1930 was the year of disappointment —the tide of prosperity had ceased to flow in one direction. 1931 was the year of disillusionment—the return to prosperity, though sure, would be slow. 1932 is the year of despair. The race for individual and corporate economy, for individual and corporate liquidity—though understandable in each single case—is shattering the machinery of money-getting and money-spending which we call capitalism. As Mr. J. M. Keynes says in the May number of the *Atlantic Monthly* :

With no financial leadership left in the world and profound intellectual error as to causes and cures prevailing in the responsible seats of power, one begins to wonder and to doubt. At any rate, no one is likely to dispute that for the world as a whole the avoidance of financial collapse, rather than the stimulation of industrial activity, is now the front-rank problem. The restoration of industry must come second in the order of time.

"Nowhere," he adds, "is this better understood than in the United States." This much, at least, we understand : that when every individual and every corporation is in a state of "jitters," and when collapse is threatened by the cumulative effects of fear—the only possible way to avert collapse is by allaying these fears, and the only instrumentality which can possibly bring about this change in

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psychology is the government. The record of the government of the United States in this respect is not a thing to be proud of. All through 1930 our "leaders" sat on the stage and beguiled the people with reassuring words which, in retrospect, sound so short-sighted and altogether witless that it would be a cheap form of sport to repeat them here. Early in the next year the slogan became one of "patience and confidence": whatever goes down must go up: we live in business cycles. Banks were closing their doors, here and there, all over the country: but the audience were led to regard these casualties merely as tragic incidents in the cyclorama. When the Credit Anstalt collapsed in May, the first trace of smoke drifted into the theatre where the public sat. It was keenly noticed by certain gentlemen of the banking fraternity who picked up their hats and coats, unobtrusively, and made for the door. The Hoover moratorium blew more smoke into the pit; so that the audience began to fidget, and in September, when London went off the gold standard, they rushed for all the exits, suddenly, in a body. Gold moved out of the country at an alarming rate, security prices tumbled, over a thousand million dollars were drawn out of accounts and hoarded at home. Fear rode in the saddle, and by the end of December more than two thousand banks had shut up shop—all in the space of twelve months' time. The Secretary of the Treasury gave a vivid description of the sequence of events to the Associated Press on April 26:

Every bank that failed frightened depositors. They withdrew deposits. The withdrawal of deposits frightened the banks. The banks in turn sought to make themselves liquid—that is, they sold investments, called loans and stopped making new loans. As this movement proceeded the prices of bonds fell progressively to lower levels, weakening the position of all banks holding them as a secondary reserve, and carrying a threat to other great fiduciary institutions.

In January, 1932, there were 342 bank suspensions; and it finally became evident to government that "the whole

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credit structure of the nation was gradually being imperilled."

III.

BE it said that Congress, under the leadership of the President, faced the issue squarely. A Reconstruction Finance Corporation was established and empowered to employ the national credit to the extent of \$1,500,000,000 in providing "emergency financing facilities to banks . . . insurance companies . . . and railroads." Banks were to be assisted, not for the sake of their shareholders, but for the sake of their depositors, and because they were "affected with the public interest," being essential parts of the credit machinery of the country. Railroads were to be protected from receivership, not only because of the dislocation of commerce, industry and employment which would ensue, but also because of the fact that railroad liens have been, and still are, the chief medium of investment for American insurance companies. There can be no doubt that the creation of this emergency corporation, and the work which it has accomplished since February 2, have been the most important weapon in the war which the Administration is now waging against the forces of fear and the processes of deflation. As compared with 342 bank suspensions in January, with deposits of \$219,000,000, there were forty-five suspensions in March and seventy in April, with total deposits of less than \$65,000,000. In these same two months \$250,000,000 in currency crept out of hoarding and went back into the banks. On April 21, testifying before a Committee of the House of Representatives, Charles G. Dawes, President of the Corporation, stated that in the seventy-one days of its existence there had been loaned on adequate security to banks and trust companies in the United States \$243,000,000, to railroads \$77,500,000, and to other quasi-public financial institutions the sum of \$50,000,000.

The Corporation has been functioning (he said) for a period of
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only about eleven weeks. It is carrying on its work with the utmost expedition consistent with proper methods of procedure. As yet it has used in its operations only about one-fifth of its resources ; and chiefly on that account time must elapse before the full beneficial effects of its operations can be properly appraised. But already the beneficial effect of its most important work thus far—its loans to banks and trust companies—is sufficiently evident to have alone justified Congress in the creation of the Corporation.

The Glass-Steagall Bill, signed by the President at the end of February, is the second weapon in the Government's war on fear. The Bill has been called "the most important piece of banking legislation enacted since the Federal Reserve Act of 1914." After signing the Bill, Mr. Hoover issued a statement commending the non-partisan co-operation shown in both houses of Congress and describing the major purposes of the new law as follows :

First : In a sense this Bill is a national defense measure. By freeing the vast amounts of gold in our Federal Reserve System (in excess of the gold reserve required by law) it so increases the already large available resources of the Federal Reserve Banks as to enable them beyond question to meet any conceivable demands that might be made on them at home or from abroad.

Second : It liberalizes existing provisions with regard to eligibility of collateral and thereby enables the Federal Reserve Banks to furnish accommodation to many banks on sound assets hitherto unavailable for rediscount purposes.

These two important measures—the Bill creating the Reconstruction Finance Corporation and the Glass-Steagall Bill—were designed to deal with certain "situations." Any one of the situations in itself was serious enough ; while all of them together, if not corrected, were certain to carry the country into financial chaos. Thanks to the new legislation, the fear of bank failures has been greatly allayed ; the market price of railroad securities held in the portfolios of financial institutions, while still unsatisfactory, is no longer governed by panic psychology ; the central banking system is in a position to withstand the flight of foreign gold ; and those banks which are members of the

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Federal Reserve System are now relieved of much of the pressure which compelled them to sell their investments and call their loans in order to be in a position to meet extraordinary demands from their depositors. If the Corporation, the Treasury and the Federal Reserve all persevere along their present lines of effort (and if Congress is able to produce a satisfactory budget before it adjourns) we may be able to look back upon these present months as marking the turn of the depression.

And the Government has gone one long step further. In addition to these two powerful protective measures, a new and bold offensive has been launched by the Federal Reserve System. On April 13 Governor Harrison, of the New York Federal Reserve Bank, disclosed the details of a vigorous "easy money" policy upon which the Reserve had recently embarked. For some weeks following the passage of the Glass-Steagall Bill the Federal Reserve had been buying government securities at the rate of \$25,000,000 a week. Governor Harrison announced that the System had recently purchased and would continue to purchase "governments" at the rate of \$100,000,000 a week until conditions should cause them to modify that policy. The object of this carefully planned offensive is to lift the price of "governments" to a point where they become an unprofitable medium of investment for fresh funds; and thereby to force financial institutions into the municipal and corporate bond market. All this should logically lead to freer lending and to a rise in commodity prices.

On May 3, by a vote of 289-60, the House of Representatives passed the Goldsborough Bill, charging the Federal Reserve Board, the Federal Reserve Banks and the Secretary of the Treasury with the "duty" of restoring the purchasing power of the dollar to the 1921-1929 level and maintaining it there! The Bill in some ways is absurd; but not more absurd than the consternation which it appears to have caused in Continental Europe. For the measure is hardly more than the expression of a

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plans wish; it may well be defeated in the Senate; it is sure to be killed by a Presidential veto. If the Reserve Board, the Reserve Banks and the Treasury do embark upon such a mad career of uncontrolled inflation as some of our Continental friends seem to fear—that phase will be signalled, not by a Goldsborough Bill or its like, but by the resignation of Eugene Meyer from the chairmanship of the Board. Meanwhile, he has put his hand to the plough and is not likely to turn back. It is reported that the Board is prepared to buy "governments" at the present rate until September; and will coolly watch \$700,000,000 in gold leave the country, if need be, before swerving from its present policy.

If this bold offensive is to succeed, it must be given time and it must be favored by circumstances. All the financial institutions which have been liquidating their investments as fast as the markets could absorb them will not change over to the buying side forthwith. Banks which have been sternly calling loans for the past two years will not readily put their money out except to prime borrowers; and prime borrowers are either already in a strong cash position themselves, or else they are waiting upon developments before expanding their operations through the use of credit. So that even if no adverse event occurs, it will be many weeks before the desired effects of the Federal Reserve's new policy are felt. It is a gigantic task—that of making the flood turn and flow up-hill.

And there is one further factor. If the Senate and the House of Representatives, who have been floundering for the past two months over the problem of balancing the budget—if they adjourn for the summer and for the Presidential campaign without solving this problem in reasonably satisfactory fashion, the water will cease to move up-hill, and the country will once again be engulfed in fear. On April 30, at the close of the first ten months of the government's fiscal year, \$4,020,000,000 had been spent, while receipts had amounted to only \$1,686,000,000.

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The deficit for the whole year cannot possibly be less than \$3,000,000,000, and may in fact be considerably higher. No one in his senses has dreamed that these figures could be brought into mathematical balance for the next fiscal year. Every scheme that has been proposed for effecting a balance has allowed for suspension of sinking fund payments of the government debt, amounting to \$400,000,000. They have all been predicted upon the probably false assumption that \$250,000,000 will be received by the United States Treasury from foreign governmental debtors. And the yield from proposed income tax schedules is reckoned on the questionable premise that business will be better next year than it is today. The goal to be reached by fresh taxes and reduced expenditures has been set at \$2,000,000,000. If Congress provides ways and means for finding that much money, they will have done all that can reasonably be expected of them. If they fail, from shortsightedness or from a cowardly unwillingness to lay taxes and make economies in quarters where they fear resentment, the credit of the United States will be most gravely imperilled. Government securities will suffer on the exchanges, our financial institutions will resume their mad race for liquidity : and the financial structure of the country will probably collapse.

The essence of the matter (writes Walter Lippmann) is not statistical, but political. The underlying question is whether the American nation acting through its party system can convince itself that it is awake and determined. If that can be done (and it could be done by a few bold and quick decisions in Washington to pass a tax Bill, accept the President's economies and kill the prospect of a soldier's bonus Bill by June 1) the immediately necessary will have been accomplished. The budget will not really be in balance, but the government itself will be coherent and responsible. On such a demonstration depends in good part the restoration of the confidence of the people.

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IV.

BY the time this article is printed we will have learned, for better or for worse, how the United States has passed through the most tense moment of a crisis in its financial history. The outcome may give the reader cause to smile at the faith, herewith asserted, that the bonus Bill will not be passed and that the budget will be "balanced" before Congress adjourns. But, even if this rash prophesy comes true, what of it? Well, since life is what it is, we can then look forward, rather wearily, to the task of wrestling with the economic consequences of Lausanne.

United States of America.

May 5, 1932.

DISARMAMENT

I. THE BACKGROUND OF THE CONFERENCE

THE governments of the world are facing at the present moment a series of problems which in complexity and difficulty have never been paralleled in history, while in urgency and importance they are hardly to be reckoned inferior to the direct issues of peace or war. Within a few months, conclusions must be reached in the financial and economic field the effect of which will probably be decisive for or against the happiness of, at least, one generation of human beings all over the world. In the Far East there has arisen a crisis which, while there is hope that it may yet be solved to the common benefit of China and Japan, is nevertheless fraught with tragedy and danger to both countries, and is seriously affecting both the political and material interests of the nations of the West. And it is at this moment that the Disarmament Conference brings our overburdened governments face to face with a fresh group of political problems of first-class importance.

That this should be the effect of the Conference was no doubt in any case inevitable. Until recent times, political and military power have been practically interchangeable terms. A growing respect for law and justice, on the one hand, and the vast increase of commercial relations and financial interdependence, on the other, have now accomplished a notable change, and the establishment

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of the League of Nations has given solidity and permanence to the advance thus made, and provided a base for further progress. Nevertheless, it remains a fact that in the solution of any serious international question the comparative military resources of the disputing States constitute an element always important, often decisive; and changes in the present situation in respect of those resources will inevitably involve proportionate changes in the political situation also.

To this general rule the Treaty of Versailles created an artificial exception. Germany, while remaining necessarily a Power of first-class political importance, was reduced militarily to the third class. Such a situation is a problem in itself: and the statement in the Treaty that this reduction was imposed "in order to render possible the initiation of a general reduction of the armaments of all nations" shows clearly enough that the Allies recognised that their action involved the facing of further decisions in the near future. For years Germany has been awaiting those decisions: behind all the activities of Stresemann and his successors, behind Locarno and The Hague, behind political recovery, reduction in reparations figures, withdrawal of foreign troops, she has never ceased to feel that in the disarmament question lies the test, both in symbol and in fact, of her real restoration.

These considerations bring us, then, straight away to the two fundamental questions of the Conference:—First: Are the great military Powers prepared to forego some part of their present superiority over other nations? And second: What answer should be given to Germany's demand that the Conference should put an end at least to the moral inequalities to which she has been subjected since the Peace Treaty?

But if these two problems dominate more completely than any others the whole deliberations of the Conference, it is none the less evident that those others are numerous, important, and difficult. Italy demands the recognition,

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at least in theory, of her right to parity with any other continental Power ; she means, of course, France, and there is little indication that France is prepared to accept her claim. There is mutual suspicion between Soviet Russia and her western neighbours, as well as between Soviet Russia and Japan. There is the problem of restricting military aviation without interfering with the peaceful development of civil and commercial flying. Special provision must be made for the governments which have to keep order in those regions of the world where civilisation has penetrated mainly in the form of an improvement in military equipment. Some means must be found of giving due weight to the differences between States which enlist their military forces by conscription, and those whose system is based on voluntary long-time service ; and again, between States whose industrial development enables them to equip themselves rapidly for war, and those which possess no such resources. Some agreement must be found, satisfactory both to members and non-members of the League, for ensuring that countries which loyally keep their new obligations will not be exposed to fresh danger from less scrupulous neighbours.

It is true that there have been long and detailed discussions on many of these questions, but this preliminary work has been of value rather in bringing to light the problems which have to be faced than in making any real progress towards their solution. They are in the last analysis political problems requiring political decisions ; and in this, even more than in other fields, it is quite useless to expect that technical discussion by experts will do anything to modify the policy of governments. Agreement on such matters must be the outcome of a state of mind in which mutual concession becomes easy : it can never be brought about by argument.

The delegations to the Disarmament Conference are therefore in reality faced with the solution *de novo* of problems which would be enough to occupy the whole of

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the attention which governments can in normal times devote to international affairs. There is, of course, an essential connection between the questions of disarmament and security, on the one hand, and those of reparations and war debts, on the other ; between the political relations which are affected by the one, and the economic relations which are affected by the other. The complex of major international problems at the present day is a connected whole, and progress or retrogression in one sphere will soon make itself felt in the others. Nevertheless, it is clear that it is beyond the capacity of the world in its present condition to advance simultaneously along the whole line, and it is probably true that it would have been to the general advantage to have postponed the holding of the Disarmament Conference until the more pressing financial problems had been dealt with, and until some improvement in the economic situation of the world had begun to make itself felt. It has been impossible either for governments or for intelligent public opinion to concentrate on the Conference as might with advantage have been the case. Add to this that in two of the countries most vitally concerned, France and Germany, critical elections were fixed for the months of April and May, and that a third country, Japan, was engaged during the whole of the first month of the Conference in war-like operations on a considerable scale. It cannot be expected that there would be a time when all conditions were favourable for such a meeting. But it can hardly be doubted that the moment at which it has met—a moment fixed more than a year in advance, at a time when most of the present unfavourable conditions could not possibly have been foreseen—has in fact proved singularly unfortunate, and that the Conference will take a much longer time to arrive at results than would have been the case if the governments had been in a position to concentrate on it what may be called the whole of their exportable surplus of attention and energy.

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II. THE EARLY PHASES

NEVERTHELESS, in spite of unfavourable circumstances, and whatever may be its final result, the holding of the First General Disarmament Conference is an occasion which could not fail to appeal to the imagination of the world. Great efforts have been made in many countries to impress on public opinion the historic importance of the occasion and the necessity that their governments should play an honourable part. From every continent, and almost from every country, petitions for its success have poured and are still pouring into Geneva. Practically every country is represented: from this point of view no previous event can be compared with the Disarmament Conference: it is the first meeting of all the nations of the world. The official delegations include, besides an imposing array of experts and exalted staff officers, a high proportion of the leaders of public life in the various countries, although it has been one of the consequences of the circumstances already described that Prime Ministers and Foreign Ministers have been unable to remain continuously in Geneva. The numbers of the official delegations are equalled, if not surpassed, by those of the journalists, publicists, politicians, and representatives of international organisations. It was a matter for regret that, in spite of the pressing invitation of the British Government, it was in the latter capacity, and not as a member of the British delegation, that Lord Cecil was present, and made, on one of the early days of the Conference which was set aside for the presentation of addresses from international organisations, a speech which was recognised as an admirable exposition of the results of much national and international discussion on all the aspects of disarmament. The British delegation and the Conference as a whole are much the poorer for his absence.

The Early Phases

The Conference opened on February 2, with Mr. Arthur Henderson in the President's chair. Appointed by the Council as President at the time when he was still British Foreign Secretary, he had been somewhat criticised in certain quarters for not resigning the appointment when he ceased to hold office. It may be said at once that his presidency has been a complete success, and that the severe illness from which he has not yet entirely recovered has in no way impaired the qualities which made him last year the best chairman who ever presided over the Council of the League. The fact that he is not officially connected with any delegation has probably proved an advantage rather than the reverse.

It had been anticipated that the Conference would be faced at the outset with the difficulty of deciding to what extent its work was to be based upon the Draft Convention which had been drawn up by the Preparatory Committee for the Limitation and Reduction of Armaments as a result of a long series of meetings in 1928, 1929 and 1930. The Draft Convention, as was to be expected considering the wide difference between the views of many of the governments represented on the Preparatory Committee, contains some articles which represent little more than a compromise along the line of least resistance; some which are the result of narrow majorities in the votes taken by the Committee; and some which are accompanied by more or less destructive reservations and objections. It had been made particularly obnoxious to Germany by the insertion during the last session of the Committee of an article to the effect that the new Convention would not take the place of the disarmament clauses of the Peace Treaties; and for this and other reasons Germany had always set herself against the idea of taking the Draft Convention as the basis of the work of the Conference. A large majority of other delegations, including the British and American, while they considered that the Convention was far from perfect, nevertheless regarded it as embodying the result of much

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serious technical work and of an honest attempt to find the greatest common denominator of agreement, and therefore held that from a practical point of view the Conference could not do better than take it as a basis. But the expected difficulty never arose, for within a week of the opening of the Conference the spokesmen of the great Powers had made it clear that their ideas went far beyond the limits of the Draft Convention. Germany could and did accept without misgiving a resolution proposed by Sir John Simon to the effect that the Convention should be taken as a framework which could be added to, subtracted from, or changed in any way desired. It thus took its proper place as a convenient summary of the preparatory work of the last few years, a practical tool at the service of the delegations, without any limiting or compromising effect on their freedom of action.

The work of the Conference up to the beginning of May may be divided into three phases. In the first phase, the various countries, with the great Powers in the lead, declared their general policy on the disarmament question, setting forth not so much the ideal at which they aim—for there is no country which would declare that its ultimate goal is anything short of complete disarmament—as the achievements which they hope might be reached by the present Conference, the methods they would apply for the purpose, and, less explicitly, the dangers they desire to guard against.

In the second phase the Conference, a trifle bewildered at the unexpected wealth of new suggestions, sorted and classified the immensely complex material for discussion, and at the same time organised itself into a machine for dealing with this material—tasks that had to be got through, but of no interest to the public at large, and trying for the patience of the delegates. The Conference was glad, on its completion, to break up for the Easter holiday.

The third phase has a superficial resemblance to the first. We are back in the atmosphere of general, almost of

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theoretical, ideas about disarmament. But as we shall see, its discussions have, in fact, been several degrees nearer to the realities of the problem. The stage of concrete results is still beyond the horizon; but we are none the less in definite and conscious relation with it.

III. QUALITATIVE DISARMAMENT

THE first phase of the Conference was opened by M. Tardieu, who laid before it a complete scheme which soon became known as the French plan.

The French plan proposes in the first place measures to deal with the problem of military aviation. It is suggested that all military machines should be divided by tonnage into three classes, the biggest machines to be transferred immediately to an international air force, those of medium tonnage to be retained by individual States on condition that they agree beforehand to place them at the disposal of the League in case of need,* and the lowest class to be retained at the free disposal of the individual States. These measures are put forward by the French as meeting the two points which they regard as essential, namely, to strengthen international action against aggression, and at the same time to allow each country to defend itself against sudden bombing attacks from the air.

In regard to naval and land armaments, the French plan refers only to two categories, viz., the more powerful weapons, which would be retained by the States on condition that the latter undertook to place them at the disposal of the League in case of need, and the less powerful—for instance, ships of war under 10,000 tons or carrying

* The plan provides that, if States not members of the League accede to a convention based thereon, the international authority at whose disposal these armaments would be placed could be modified accordingly. This explanation should be understood whenever the League of Nations is referred to in connection with the plan.

8-inch guns or less—which would remain at the free disposal of the individual States.

These are the only parts of the French plan which specifically relate to the reduction of armaments, or, at any rate, the reduction of armaments under the control of individual nations. The plan is completed by further proposals of a general character, which, however, form an integral part of it. First, as regards civil aviation, it is proposed that in order to meet the difficulty so often pointed out, viz., that limitation of military aircraft may be rendered ineffective by the development of commercial aircraft which can be used with little or no alteration for purposes of air bombardment, an international civilian air transport service should be created to take over and develop existing air lines. Secondly, it is proposed that every State should place a small military, naval, and air contingent at the permanent disposal of the League, to be sent to act as an international police force in any part of the world wherever there might appear to be a threat of war ; and should further guarantee in advance that if war should break out and the League should require military action to be taken against the aggressor, it would be ready to contribute a certain further force for this purpose. Thirdly, it is proposed that a strict limitation should be placed on the freedom of action of belligerents with regard to long-range artillery or aerial bombardment, and that the use of gas shells should be forbidden. Fourthly, it is declared that the whole plan necessarily depends upon the acceptance of more complete and definite rules governing the action of individual States in regard to the settlement of disputes ; in particular, that it should in every case be obligatory to refer to arbitration disputes not otherwise settled, and that the League should take measures to enable it to define in every case which State is the aggressor if war should break out.

Such is a brief summary of the French plan, which is presented to the Conference with an indication that it should be treated as a whole, and that unless it is adopted

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By all other States France will be unable to make further reductions in her military strength beyond those which she claims to have made already as a result of the Covenant of the League and of the Treaties of Locarno.

The reception given to the French plan was far from cordial. It was vigorously denounced in the German and Italian press, which declared that the French were merely covering their intention to retain their full military superiority by a show of loyalty to the League, well knowing that the conditions which they proposed had no chance of being accepted by the other major Powers. Amongst the delegations more friendly to France, including the British, it was felt that the plan was too much concerned with politics and too little with disarmament, and that if the French were to insist on treating it as an indivisible whole it could not possibly lead to any positive results. No serious public debate, and little serious private discussion, have been given to the plan so far, partly because other lines of approach have appeared more likely to lead to results, partly because, with first Germany and then France engaged in election campaigns in which foreign policy has been one of the decisive elements, the Conference has almost instinctively fought shy of engaging in a public argument which would be bound to involve serious embarrassments for both. Though it may be said at once that it has no chance of acceptance in anything resembling its present form, it is likely that the plan would gain rather than lose by discussion. Politically, it is, no doubt, at least premature; and it is hard to resist the criticism that it takes far too little account of the general desire for a prompt and extensive reduction of existing armaments. On the other hand, the charge of bad faith against its authors can hardly be sustained by anyone who has followed French policy in these questions since the war, or who knows the intense interest which liberal circles in France take in the development of international organisation. That it is

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based on France's view of her national interest should be no reproach in the eyes of supporters of the League, the only solid and permanent basis of which is the conviction of its member States that their individual interests are in the long run best served by the maintenance of peace and by co-operation with other countries. Finally, it contains the first detailed suggestions for applying special treatment to armaments which are either exceptionally powerful or are specifically designed for offensive rather than defensive military action.

The idea of specially reducing, or totally abolishing, certain categories of arms, as opposed to the idea of a proportional reduction of all, is now known under the description of "qualitative" as opposed to "quantitative" reduction. It does not appear in the Draft Convention, except in the form of prohibition of chemical warfare. It was, as has been seen, foreshadowed in the French plan. It forms the essence of the proposals of Great Britain, the United States, and Italy. Its emergence as the most practical and hopeful line of approach to effective reduction is undoubtedly the most significant fact of the early stages of the Conference. Yet, though it seemed new because it had hardly appeared in the work of the Preparatory Committee, it had already been applied—side by side with the quantitative method—in the Versailles Treaty itself. Germany is prohibited by the Treaty from possessing warships of over 10,000 tons, tanks, heavy guns, military aviation of all sorts. Though none of the proposals of the three Powers go as far as Germany asks, it is clear that their general tendency must be most welcome to her; for reduction on these lines is *pro tanto* a definite advance both in practice and in theory towards the equality which she claims, and which even those who most strongly desire reconciliation with Germany would hesitate to offer in the form of encouraging her to construct new armaments on the present scale of those of her neighbours.

The simple theory of qualitative and quantitative

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reduction was set out with admirable brevity and clearness by the first British spokesman, Sir John Simon.

We must recognise (he said) that the limitation of armaments by international agreement can only be brought about by the use of one or both of two methods of treatment. One is the method of fixing maximum limits beyond which we severally bind ourselves not to go; the other is the method of excluding by international agreement from use in warfare certain defined instruments or methods, and for both these modes of treatment we require as a further safeguard some international authority which will effectively secure that these limitations are not overstepped.

The British Empire, he declared, was ready to accept both methods. We would accept the fixing of maximum establishments in every category, on the lines of the Draft Convention. We desired to abolish submarines, gas, and chemical warfare; and to co-operate in finding practicable methods of reducing the size of ships and the calibre of guns, both naval and land. These last suggestions were explained in phrases which are worth quoting because they express a point of view which has steadily grown in influence as the Conference proceeded.

We take the view that the temptation to resort to armed conflict is obviously reduced if defence is strengthened at the expense of attack. And since our common object is not to increase but to diminish the sum total of armaments and their expense, it follows that we must direct especial attention to such prohibitions or limitations as will weaken the attack and so remove temptation for aggression.

Some may feel that the suggestions for the practical application of these principles lack something in courage and thoroughness. But their clear enunciation has already proved of high value: and the event may yet show that our Administration, in spite of a tendency to regard prudence as the highest virtue, is capable of illustrating once more the excellent British tradition of performing more than we promise.

The American delegation followed a similar line: "We believe that this Conference should and can successfully

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devote itself to the abolition of those weapons which are devoted primarily to aggressive war." Their concrete suggestions aimed at proportional reductions from the figures for naval tonnage laid down in the Treaties of Washington and London, as soon as France and Italy had adhered to the London Agreement; the abolition of submarines; protection of civilians against air bombing; abolition of chemical warfare; special restrictions on tanks and heavy mobile guns. In presenting these proposals to the Conference Mr. Gibson emphasised, as Sir John Simon had done the previous day, that the delegation did not mean, in putting forward certain specific points, to imply that it was not prepared to consider other concrete suggestions.

Italy carried the application of the principle several steps further. Her delegation has come to the Conference with instructions to press in every way for the greatest possible measure of reduction. The evolution of Fascist foreign policy is certainly one of the most interesting phenomena of international relations of the present day. For long considered as the *enfant terrible* of Europe, Italy has absorbed with Latin thoroughness the doctrine of enlightened self-interest, and in the questions of disarmament and of reparations she has placed herself boldly on the side of reconstruction and reconciliation. It is true, no doubt, that the basis of this policy is in part to be found in a desire to find support against French influence in eastern Europe. We are told, too, that the inspiration of young Fascism is still directed towards military glory and national expansion. In any case, Italy's foreign policy in the present juncture is clear and brave. She has found an admirable spokesman in Signor Grandi, her Foreign Minister, who, though still under forty, is rapidly making himself a place among the leading statesmen of Europe. Signor Grandi was a combatant in the war: it is a strange and rather unhappy reflection that he is about the only leading figure in the Conference of whom this can be said.

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The Italian proposals are not only openly based on the "qualitative reduction" principle, but they take as their text the disarmament clauses of the Treaty of Versailles. These clauses, said Signor Grandi, "by abolishing the most distinctively aggressive means of warfare, afford us a practical example of what disarmament should be in the spirit of the League of Nations and of the Kellogg Pact." He proposes, therefore, simultaneous abolition of submarines and of capital ships, abolition of aircraft-carriers, of all kinds of heavy artillery, of tanks, of bombing aircraft, and of chemical warfare.

A few words will complete this summary of the attitude of the great Powers in the first phase of the Conference. Japan's position was practically a reproduction of that of Great Britain. Germany repeated once more her demand for equality and put forward a scheme for general disarmament going much beyond even the Italian proposals. The Soviet delegation took the occasion once more to declare that the capitalist States have no real intention of reducing their armed forces, and to ask for the rapid adoption of the most radical measures. These are special cases, and since it is clear that there is no likelihood of proposals so far-reaching finding general acceptance at the present Conference, they need not be considered in detail.

The speeches of the representatives of the smaller States brought, as was to be expected—for the armaments problem is obviously in the main a question for the great Powers—little that was new. Many of them, not only amongst those who generally follow the lead of France, showed a liking for parts of the French plan, in particular for the suggestion to place civil aviation under international management, and for the idea of a "police force" at the disposal of the Council. The attraction of this idea undoubtedly arose in part from the view which, rightly or wrongly, is universally held among the smaller countries, that the Council ought to have been able to intervene in a more decisive way in the early stages of the Manchurian conflict,

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and that the existence of certain forces earmarked beforehand to be sent at its discretion to act as police in any given area would, in fact, have enabled it to do so. But the prospect of prompt and positive reduction in the world's stock of powerful armaments was, of course, still more attractive to all the smaller States; and, above all, they welcomed the suggestions for the abolition of aerial bombardment. Some of them pointed out that countries which possessed no armaments industry of their own would be at too great a disadvantage in the case of conflict with a country which possessed such an industry, unless they were allowed to keep some stock of the more powerful weapons which their adversary could hardly be expected to refrain from making and using. This is clearly a point which must be provided for in any disarmament convention. With reasonable good-will, it presents no insurmountable difficulties. It may be mentioned in passing that Turkey and the Argentine took the opportunity of declaring, the one her wish to join the League, the other her wish to return to it.

Among the rank and file of League membership, no group is of greater interest than that of the British Dominions, who stand alone in that for all the distance, geographical and political, which separates them from Europe, they have had recent and terrible experience of modern warfare. Their interest in the problems of the Conference is more remote, but no whit less substantial, than that of their European colleagues. And they have much to teach: what European can hear without some touch of shame of South Africa united into a single people within a few years after the end of a desperate war, of Canada with her 3,000 miles of undefended land frontier? No one will blame the Dominions if they feel at the present time that it is best for them, so far as membership of the League allows, to hold aloof from the dangers of European quarrels rather than to risk further commitments in order to avert them, and if, in consequence, they are inclined to refuse

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any consideration to the French plan. Such an attitude is still less surprising when we consider that it is on the whole that of the present Government in the United Kingdom, in spite of the fact that England, deeply involved by history, by treaty, by ties of commerce and of sentiment with her European coevals, can never remain a spectator of their troubles. Yet two at least of the Dominions, Canada and South Africa, have always shown a real and constructive interest in the League, and may be trusted to realise that co-operation and concession by all concerned are needed to enable it to perform its task for the common good. No speeches made recently in Geneva have shown a better understanding of its purpose than those delivered by Mr. Te Water, the South African delegate, in the Disarmament Conference and in the Assembly. Mr. Te Water is a real find: clear-headed and courageous, it may be that he is destined to embody in succession to Botha and Smuts the political genius of South Africa. There could be no prouder ambition.

The second phase calls for little comment. The delegations and the Secretariat at Geneva have learnt most that there is to know about the technical side of conference management. In spite of the immense mass and complexity of the material with which it had to deal, the Conference did not take long to arrange it into a manageable agenda list, based as far as possible on the Draft Convention, and to organise its committees—a committee for land armaments, one for naval armaments, one for air armaments; a budgetary committee (to deal with the plans for limiting armaments by limiting the budget appropriations for the purpose); a political committee (to deal with questions of supervision, etc.); and a general committee consisting of the heads of delegations, which is to assign its work to each of these committees and receive its report. In this work of organisation the Conference owes much to the indefatigable labours of M. Benes, the Foreign Minister of Czechoslovakia. He possesses a deep

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knowledge of the whole question, an unequalled understanding of the views and prejudices of each delegation or group. The subject-matter of the Conference is too weighty to be manipulated even by the most exceptional diplomatic energy and skill ; but by electing M. Benes to one of its chief offices it has ensured that all that is possible will be done to avoid unnecessary friction and loss of time.

During the Easter holiday which followed, it was announced that Mr. Stimson would join the American delegation soon after the Conference re-opened. It was already known that Mr. Ramsay MacDonald, M. Tardieu, and the German Chancellor, Dr. Brüning, intended to be in Geneva at the same time. Meanwhile, what we have called the third phase of the Conference began in a somewhat dramatic manner with a formal declaration by Mr. Gibson that the United States was definitely prepared to abolish what they considered aggressive land armaments, viz., all tanks and all mobile guns of over 6-inch calibre, and invited the other nations to do the same. The issue of "qualitative reduction" was thus squarely joined, and while Italy gave wholehearted, and Great Britain a somewhat hesitating and partial, support to the American proposals, M. Tardieu lost no time in taking up the challenge. Which weapons, he asked, are aggressive, and which are defensive ? Tactically, a tank is no doubt a weapon of attack : but if it is used in attacking an enemy entrenched in one's own country, it is strategically and essentially a weapon of defence. War equipment, whether on land or sea, or in the air, must be treated as a whole : it was illogical to demand the abolition of all but the least powerful land weapons, while retaining the infinitely more formidable menace of battleships with their wide range and terrific attacking power. Finally, it was impossible to accept such proposals before even any serious consideration had been given to the French plan. Great wars were waged before such weapons were dreamt of : we gain nothing in security by abolishing them, whereas by main-

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"leaving them at the exclusive disposal of an international organ pledged to prevent aggression we can make future war impossible.

The courtesy of international discussion forbade M. Tardieu to voice the real feeling of the French, viz., that the United States was proposing the abolition of weapons which were of no use to herself, since there is no possibility for her of serious warfare with her neighbours on land, while giving up nothing in the sphere of air and naval armaments which may be important to her. The same view is held by many States of Latin America, who, while seeking to use the opportunity of the Conference to make mutual limitation agreements among themselves, undoubtedly hope that it will have the effect of relieving them to some extent from fear of the naval and air forces of the United States. However, though events in the Far East have doubtless strengthened the hands of the Big Navy school, we may confidently expect that if Mr. Gibson's proposals concerning land armaments seem likely to lead to results, the United States will be ready to consider analogous proposals in regard to air and sea. This is at once their only chance of acceptance and the test of the spirit in which they are proposed.

After ten days of debate the Conference passed unanimously a resolution in general terms declaring itself in favour of qualitative reduction, but without coming down definitely on the side either of prohibition or of internationalisation ; and instructed the three technical commissions on land, sea, and air armaments to report which weapons were most offensive in character or most effective against defence.

This summary brings the history of the Disarmament Conference down to the beginning of May. The technical commissions are now at work on the task of defining which weapons are aggressive and which are defensive. The results of their work have yet to be received : but they are not likely to make the path of the Conference

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any easier; for how can it be expected that the representatives of the fighting services should willingly sign the death-warrant—even with a prospect of some delay in executing it—of any considerable division of the organisations with which their lives are bound up? There can be no doubt that if serious results are to be achieved the heads of delegations must be prepared to go further than their technical advisers.

IV. INTERIM REFLECTIONS

MEANWHILE, for several days the men on whom above all rests the responsibility of guiding the principal countries through their present difficulties have had an exceptional opportunity for discussion. It is too early to do more than guess what use they have been able to make of it. Their task is difficult indeed. In spite of the warnings which have poured out from League conferences, committees and assemblies since 1927, national egoism in the economic sphere has brought international trade to a standstill and the industrial countries to the verge of ruin. Fear of financial and economic disaster has intensified the national caution of the great Anglo-Saxon countries, and made it more difficult than ever for their governments to look beyond the empirical decisions of the moment. In Germany men are waiting to see whether the National-Socialists will carry out, now that they have a large share of power in the country, the policy of defiant nationalism which they preached in Opposition. France is in the middle of an election campaign which will show her reaction to the developments of German politics. The national feeling of Poland is not less ready to take an aggressive form, and in Danzig and along the frontier hotheads on both sides have to be continually restrained from provoking incidents which would turn them for a moment into national heroes. The war-clouds in the Far East show no sign of lifting, and are none the less dangerous

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because in Europe men begin to take them for granted and to forget their existence.

There is no way out of all this trouble that does not involve sacrifices and concessions from all concerned. No advance is possible so long as each country considers in isolation the justice of its own claims, and waits for the others to recognise it. It is of the utmost importance that public opinion and the press, especially in Europe, should realise and act on this truth. The part played by the French and German press in particular, in connection with the Conference, has been a real hindrance to its progress. Every slight concession is called a victory for the other side and considered a proof of weakness. Every form of malevolence and insincerity is freely ascribed to any delegation which differs from that of the writer. A heavy responsibility rests on the shoulders of those who thus add unnecessary difficulties to the already overwhelming task of the statesmen who must agree or perish.

For the Conference itself it may be said that in spite of unfavourable circumstances its early stages have on the whole been successful, but that immediate further advance may be difficult. The German and French elections have held up its progress, which can hardly be resumed until the political life of the two countries has again settled down. The vital decisions to be taken at Lausanne in June on the problems of reparations and debts will then have to be faced, and it is doubtful whether any great development of the Disarmament Conference can now be expected before the autumn. In view of the vast complexity and vital importance of the subject, this is not surprising nor particularly regrettable. No one has the right to criticise the slowness of the Conference who is not prepared to ask his own Government to make the concessions which are needed to keep it moving on the road to success.

Geneva.

May 1932.

THE FAR EAST

SINCE September 18 of last year the Far East has been in the centre of the international stage and the main preoccupation of the League of Nations. Would that it had been so earlier and that, in this country and in Western Europe in particular, it had not become habitual to regard Europe as the chief danger-spot in the post-war world! For, to anyone who has tried to gauge the real forces in international affairs without allowing his perspective to be distorted by relative distances, it has long been clear that it is on the western shores of the Pacific, the home of nearly one-third of the population of the globe, that the world has to face the greatest threat to the new constitutional system which the statesmen and peoples have been seeking to build up so as to avert another world war. It was with the object of meeting this threat in time that a group of far-sighted men in 1925 founded the Institute of Pacific Relations, with National Councils in the various countries concerned with the problems of that area, in the hope that a clash might be prevented by frank and friendly discussion. The clash has occurred. Nevertheless the discussion has not been fruitless. The issues indeed are of such a kind that they cannot be settled by force of arms. It is a Gordian knot that not the sword but only the slow fingers of Time can untie. Whatever the momentary situation in Manchuria and around Shanghai, the fundamental facts remain substantially unchanged. The chief of these concern China : and it is with China, therefore, that these pages must primarily deal.

China : The Basic Factors

I CHINA : THE BASIC FACTORS

BY a Treaty signed in Washington on February 6, 1922, and in force since August 5, 1925, the British Empire, together with the United States, France, Italy, Japan, Belgium, Portugal and the Netherlands, has undertaken "to provide the fullest and most unembarrassed opportunity to China to develop and maintain for herself an effective and stable government." The occasion on which this obligation was undertaken was of singular solemnity, for the Conference of which it was one of the principal results marked the achievement of the first measure of disarmament by mutual agreement of which history bears record: and the political and disarmament agreements were strictly interdependent. Neither could have been achieved without the other. From this spring political consequences of world-wide importance which must be left aside for the moment. Here we must first deal with the extent and meaning of the obligation which, since the Washington Conference, forms the basis of British policy not in China only but throughout the Far East: for, in existing circumstances, geographical, economic and political, our relations with Japan must be influenced at almost every point by our policy towards China.

China is the oldest civilised society in the world. Six thousand years before the Christian era "there was in China an Empire in certain respects more cultured than that of Rome in the age of the Antonines."^{*} Dynasty succeeded dynasty, but the essential elements which hold Chinese life together have lasted on unimpaired, notwithstanding, as anyone who has really communed with the mind of even the most Western-educated of the race can certify, the impact of the republicanism, the materialism

* *The Capital Question of China*, by L. Curtis, p. 6 (Macmillan & Co., 1932, price 10s. 6d.).

and the ephemeral values of the present age. The Confucian ethic, with its insistence on the virtues of everyday life, cheerfulness, common sense and honesty as between neighbours, together with the obligation of family piety, in the Latin sense of the word, has proved a social cement by means of which over one quarter of the world's population has contrived to live for thousands of years grouped in families and villages without losing its social cohesion and the sense of belonging to a larger community. Utterly different in its outlook upon the world from the restless children of Greece and Rome, with their more highly centralised type of organisation, their practical applications of natural science and their new-found belief in "progress," this vast section of humanity, with its roots even deeper in tradition than our own, has within the last few generations come into close contact with the West. It is a contact between civilisations, the most interesting for the scholar, the most momentous for the statesman, that the world has seen. How can it be turned to good account? That is the question asked, and left open, by the Washington Conference.

The relations between Great Britain and China go back to the seventeenth century, when tea first found its way to London. In 1715 the East India Company began to trade regularly with Canton, and gradually Indian opium assumed its place as the main import in exchange for Chinese tea, silk and porcelain. By 1830 the Indian trade had grown to 4,000 chests per annum, and in the succeeding decade, the monopoly of the East India Company having been abolished in 1833, the trade increased seven-fold. The Chinese Government, aloof in haughty isolation, was not equipped to deal with a problem of foreign policy which at first seemed only to concern the provincial authorities. The inevitable difficulties were thus accentuated by a misunderstanding of the Chinese political system, and the resulting war ended in the cession of the bare island of Hongkong for the convenience of British

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trade and in the opening of certain "treaty ports," including Shanghai and Canton, to foreign trade.

During the ensuing eighty years, from 1842 to 1922, British policy in China was a policy for the furtherance of British trade. No attempt was made to extend British political power, still less to promote mutual understanding between the two political communities concerned. In 1843, indeed, the British Government made it clear that it sought no exclusive rights, securing only the right of most-favoured-nation treatment in all arrangements made by China with other Powers. Hongkong grew to be a great emporium of over 600,000 inhabitants; but it never served as a link between the deeper thought of East and West. Individual British officers, including General Gordon, trained Chinese armies, and individual British administrators, of whom Sir Robert Hart is the most famous, made the Chinese Maritime Customs the most efficient piece of machinery in the Chinese State. But the British Government averted its eyes from the political problem presented by the contact of the two systems. At the close of the nineteenth century, when Japan had begun to show her Westernised power and German and Russian ambitions in the Far East were becoming important factors for British policy, Lord Salisbury awoke to the fact that political relations between China and the West could not continue as they were. But he saw in China only a Turkey writ large. Partition between Western governments seemed inevitable and, for the sake of the commercial interests involved, he endeavoured to secure a fair share for Britain. The despatch in which he instructed our Ambassador in St. Petersburg to initiate negotiations with Russia to that end has recently been published and throws a vivid light on British policy only thirty-four years ago, and on the immense psychological change, both in the East and in the West, which has come about since then.

Our idea (writes Lord Salisbury, amplifying a previous despatch) was this. The two empires of China and Turkey are so weak that

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in all important matters they are constantly guided by the advice of foreign Powers. In giving this advice Russia and England are constantly opposed, neutralising each other's efforts much more frequently than the real antagonism of their interests would justify ; and this condition of things is not likely to diminish, but to increase. It is to remove or lessen this evil that we have thought that an understanding with Russia might benefit both nations. We contemplate no infraction of existing rights. We would not admit the violation of any existing treaties, or impair the integrity of the present empires of either China or Turkey. These two conditions are vital. We aim at no partition of territory, but only a partition of preponderance. It is evident that both in respect to Turkey and China there are large portions which interest Russia much more than England and *vice versa*. Merely as an illustration, and binding myself to nothing, I would say that the portion of Turkey which drains into the Black Sea, together with the drainage valley of the Euphrates as far as Bagdad, interest Russia much more than England : whereas Turkish Africa, Arabia, and the valley of the Euphrates below Bagdad interest England much more than Russia. A similar distinction exists in China between the valley of the Hoango with the territory north of it and the valley of the Yangtze.

Would it be possible to arrange that where, in regard to these territories, our counsels differ, the Power least interested should give way to and assist the other ? I do not disguise from myself that the difficulty would be great. Is it insuperable ?*

This particular negotiation fell through, but the rivalry between the Powers continued ; a year later the United States Minister in China was convinced that China was breaking up. "A glance at the map," he wrote in a despatch to Secretary Hay, "will show Russia strongly entrenched in Manchuria, Germany in Shantung, Italy demanding Chekiang, Japan expecting Fukien, England at Hongkong and the French in Kwantung and Tongking, with the English claiming an extended sphere along the Yangtze . . . There is practically nothing left for the United States but the province of Chihli." Secretary Hay, however, set his face against partition and, in a unilateral declaration in 1899, followed by a circular telegram a year later, laid down the basis of a more liberal

* *British Documents on the Origins of the War*, Vol. i, p. 8 (dated January 25, 1898).

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policy. Great Britain at once agreed: indeed she had repeatedly sought American co-operation in the same sense, but the United States had been reluctant to embark on any policy which might seem to savour of an alliance or to involve an obligation of joint action for its maintenance. Hay's intervention, as Mr. Stimson has justly claimed, "brought to an end the struggle among various Powers for so-called spheres of interest in China which was threatening the dismemberment of that empire." It rested on the twin principles of the open door and the preservation of the territorial and administrative integrity of China. Notwithstanding infinite difficulties and complications, this has been the broad basis of the policy of the Powers during the last thirty-two years. There have been no new alienations of Chinese territory. In Manchuria, indeed, Japan succeeded in 1905 to the rights already secured by Russia, as she succeeded after 1914 to the German rights in Shantung. But Japan did not embark on her war with Russia in a spirit of imperialist adventure, in order to secure the territorial aggrandisement on which Russia herself seemed bent. Her object was to keep the Russian power at a safe distance so as to be assured of free access to the resources, both of China as a whole and of the three eastern provinces. It is interesting to recall to-day the words used by one of the wisest of the Elder Statesmen, Marquis Ito, during the height of the Russo-Japanese war, a few weeks before the fall of Port Arthur. "It was unprofitable," he told the Second Secretary of the British Embassy in an after-dinner talk, "for any country to endeavour to go beyond those limits which appear to have been set by nature to its powers; to do so was to open a source of weakness." For that reason Japan "neither wanted Manchuria, nor was she strong enough to maintain large garrisons indefinitely on the remote borders of that province"; and, as the chief danger to Japan came from the Russian control of the railway, he suggested that "the only method by which a

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lasting peace could be secured, would be by the internationalisation of the railway from the point where it enters Chinese territory." As regards Sino-Japanese relations his views were equally moderate.

The Japanese (he said) could by themselves effect but very little. It was true that Japanese could understand Chinese better than all but a very few foreigners could ever hope to, but the character of the two nations was too dissimilar and the resources of Japan were feeble. If, however, England were to co-operate with Japan, then much might be done. England had been the first to open up China, and her influence there was older and wider than that of any other country. The two were thus well fitted to work together.*

Much has changed in the world and in the relative position of the great Powers since that confidential talk in Tokyo in November, 1904; but the permanent elements in the situation remain unchanged. These are the indestructibility of China, the economic needs of Japan and the fact that only "a very few foreigners" have been able to enter into the mind and soul of China and to penetrate to the deep-lying elements in the Chinese nature which constitute at once its apparent weakness and its unshakable strength under the strenuous conditions of the modern world. But it is equally true that only "a very few foreigners" have understood the mind and soul of Japan: and it is to Japan that we must now turn.

II. JAPAN AND HER LOST OPPORTUNITY

THE history of Japan is one of the strangest in the world's annals. Its main lines should be familiar to all who would pass judgment on her present actions. It is, indeed, one of the great gaps in Western education, which our schoolbooks are even now not seeking adequately to repair, that the memories which enliven, and too often embitter, the consciousness of every Japanese awaken no echo, and can thus inspire no sympathy, in Western minds.

* *British Documents on the Origins of the War*, vol. iv, pp. 64-66.

Japan and His Liberal Opportunity

Japan is ruled by a dynasty whose line goes back unbroken for over two thousand years. That is the central fact about the Japanese community. The Chinese is an ethical being : the Japanese is a political being : together the two nations make up the sum-total of the social teaching of Aristotle. The relationship of the individual Chinese to his family and to his village corresponds to the relationship between the individual Japanese and the Mikado. The *pietas* of the Chinese is within the narrow circle of home and surroundings : the authority of the village elder gains in veneration by his being described as a "father and mother official." The Japanese have been living for two thousand years, and still live, under a paternalism centred in the person of the monarch. It is not a theocracy, but it is sufficiently close to a theocracy for this to call for denial. "There is not now, nor ever has been," said Marquis Ito in the conversation already referred to, "a single Japanese who believes that the Emperor is a god ; he is a man"—here he stretched out his arms—"just like myself. It is almost impossible for anyone not a Japanese to understand the feeling of a Japanese towards His Majesty : it is most like to that which you entertain towards a father."*

Japan encountered the West in the sixteenth century in the form, first, of Jesuit missionaries, and then of firearms. The Jesuits and the Franciscans who followed them, after making many converts, were expelled from the country after a few generations. By the use of gunpowder, a group of able leaders broke down the power of the feudal nobles and firmly established the authority of the central government. But the real control was exercised not by the Mikado but by the military chiefs, of whom Hideyoshi, an Oriental Bonaparte and of equally humble extraction, was the most remarkable and the most ambitious. Under his rule Japan proceeded to make the mistake of Louis XIV and his successors—to seek military glory through conti-

* *Lec. cit.*, transposed from the *oratio obliqua* of the despatch.

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mental conquests rather than economic development through overseas enterprise. The conquest of China was the lure that led him on; and the road to China was through Korea. The war began in 1592, the Japanese sending across the straits what a recent historian describes as the greatest force ever sent on overseas service previous to the South African war of 1899-1902. The struggle was long and bitter: after one victory the ears and noses of 38,700 Koreans were packed in barrels and sent home to be buried in a mound which is still shown to visitors in Kyoto—and is not forgotten in Korea. But deficiency in sea power led to the abandonment of the enterprise in 1598. In the reaction that followed, the unity of the country was completed by the putting to death of native Christians and the expulsion of foreign priests. The statesman responsible for that policy, Ieyasu, persuaded the Mikado to grant him the title of Shogun and to make that office hereditary in his family, the Tokugawas. From 1616 to 1867 the Tokugawas were the real rulers of Japan.

The Tokugawa regime was a bureaucracy, surely at once the most nervous and the most efficient that the world has ever known. In 1637 it was alarmed by a revolt of Christian peasants, which was suppressed with much bloodshed. It was then determined to close Japan to intercourse with the outside world. No Japanese subject was allowed to leave the country on pain of death, and no ship might be built larger than would carry 2,500 bushels of rice, the build and rig being prescribed so as to make an overseas voyage a crazy adventure. Contact with the world was maintained by the admission once a year of a single ship from Holland. Thus during the two centuries when Europeans were exploring the outer seas and colonizing their territories the Japanese, already skilled in the arts of Europe, were deliberately cut off from competition.

By 1608 (writes Mr. Curtis*) as many as 15,000 [Japanese] were settled in the Philippines. . . . A glance at the map is sufficient to

* *The Capital Question of China*, p. 49.

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show that, once established in the Philippines, the Japanese must have quickly felt their way to Borneo, the Moluccas and New Guinea. In the course of two centuries they must have discovered and annexed Australia and New Zealand. Their navies must have mastered the Pacific more thoroughly than those of England mastered the Atlantic. They would scarcely have brooked exclusion by Spain from the whole American seaboard. They might well have supplanted the Spaniards in America, and to-day the civilisations of Europe and Japan would be facing each other in regions south of the great lakes. As it is, the civilisation of Western Europe dominates the ocean which washes the shores of Japan ; while she, following the path traced by her peasant dictator, has seized Korea and is driven to seek in China the means of supporting her teeming millions.

III. JAPAN'S PROBLEM

JAPAN is a country poor in natural resources with a rapidly growing population. That is the sum and substance of her foreign policy.

The problem which thus confronts the Japanese people is one of recent date. During the Tokugawa period the population was stationary, checks of many kinds, including infanticide, being employed in all levels of society to prevent an increase. At the first general census, that of 1721, the registered population was a little over 26,000,000. In 1846 it was 26,900,000. After the close of the Tokugawa regime the birth-rate began to mount. In 1872 it was 17 per thousand, in 1928 it was 34·4. The population of Japan proper at the last census in 1930 was 64·4 million, the total population under Japanese rule—including Korea, the leased territory of Manchuria (1·5 million) and the mandated Pacific islands—being 91·8 million. In most Western countries the birth-rate and the death-rate are both decreasing ; in Japan both show an increase, though the death-rate has not risen so fast as the birth-rate. The two phenomena are, in fact, related, for between 1924 and 1927 38 per cent. of the deaths occurred among children under four years of age.

Japan has hitherto always been an agricultural nation.

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But her territory is mountainous, and only 15·4 per cent. of the total area is arable. For the annual increase of 900,000 mouths it is calculated that five million bushels of rice are needed, equal to the output of 133,000 acres of land. For the past twenty years the annual increase in rice land has been from 25,000 to 35,000 acres a year.

To meet this new pressure on food supply (writes a careful Western observer*), Japan must annually bring under cultivation an area of new land four to five times greater than the area she has been able to make arable in any past year by the expenditure of the most arduous labour. Japan has no frontier of empty lands available for the taking. If production is to be increased, cultivation must climb higher up the mountain sides, steeper slopes must be terraced, farm land must be pushed farther into the sea, swamps reclaimed, new irrigation systems built, or greater crops forced from the soil—always in the face of greater and greater obstacles.

For this hungry multitude there are but two ways out—emigration or industrialisation. Emigration on a large scale is excluded, either for political or climatic reasons. Where the Japanese could live, in the warm and temperate lands of Australasia and America, they are not free to go. Where they are free to go, as to Manchuria, Sakhalin and the northern island of Hokkaido, they cannot live in comfort. There remains industrialisation.

But here, too, circumstances are inexorable. Industrialisation demands access to iron for cheap construction and to coal or oil for cheap power. Japan has practically no iron ore, little coal, and that of bad quality, whilst her annual output of oil, which has steadily declined since the peak was reached in 1916, amounts now to about seven-tenths of the output of the United States for a single day. Signor Mussolini is fond of characterising Italy as a proletarian nation. Japan is the proletarian nation *par excellence*, the foremost representative of the Have-Nots in modern civilisation. No other people has so great an interest in international justice, if by that is meant,

* *Japan's Economic Position*, by John E. Orchard, p. 6, New York, 1930.

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as it has meant in the domestic sphere, not simply the enforcement of existing rights but also the development of orderly means for remedying the maldistribution of wealth. Unhappily, it is precisely in the field of international economic relations that men have been most reluctant to apply constitutional processes or even to recognise the necessity for having recourse to them. If the Japanese people have turned to-day from constitutional to revolutionary methods for satisfying their urgent needs, and if they are more inclined to see their "vital interest" in the monopolising of the resources of Manchuria and the securing of a tied market in the rest of China, than in a general policy of access to raw material and the breaking-down of economic barriers and other discriminations, no small reproach attaches to the statesmen and peoples, unhappily often belonging to the British Commonwealth, who at Geneva during the last twelve years have banged, barred and bolted the door even to the discussion of these vital international problems. "Justice," "Necessity," "Self-preservation"—call the issue by what name you will, the logic of facts is inexorable. "Things are what they are, and their consequences will be what they will be." They are working themselves out to-day before our eyes in Shanghai and Manchuria—to-morrow perhaps elsewhere. Is it too late for international statesmanship to recognise and act up to its responsibilities?

For Japan can find no relief for her economic problem by political action in China and Manchuria. Here again the facts are unanswerable.

An industrialised Japan can only live by developing her exports. Of these, two are of major importance, silk and cotton textiles. Both go predominantly to markets which are extremely sensitive to Japanese political action. Of the Japanese exports over the five year period, 1925-29, an average of 42.5 per cent. were sold to the United States: 85.5 per cent. of the goods thus sold were raw silk (83.3) and silk tissues (2.2). These figures are an eloquent commen-

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try on Mrs. Hoover's cotton dress and on the growing movement in the United States for "non-intercourse without resort to war," of which the rayon manufacturers may be trusted to take advantage. Cotton textiles are sold chiefly in China. But the Chinese have discovered that in the boycott they possess a weapon which can exert as powerful an influence on policy as military force itself. First used against Japan in 1908, then in 1915, at the time of the Twenty-one Demands, its technique has been steadily perfected with the growth of patriotic sentiment, until it has become a major factor in the political situation, not to be broken by bombs and bayonets. The 1931 figures, recently published, show that Japanese exports fell off by 22 per cent. compared with the previous year; the decrease, however, was principally in the period subsequent to September 18, the November figures, for instance, showing a decrease of 35 per cent. on November 1930. There is no way out of this dilemma by the political or economic control of Manchuria. It is true that, under the regime which was recently overthrown, Japanese imports into Manchuria had remained stationary, and even declined, since 1918, whilst European imports—a fact insufficiently noted in the West—had been steadily increasing. But the thirty million, predominantly Chinese, inhabitants of Manchuria, even if they can be compelled (contrary to the treaties and to recent assurances) to "buy Japanese" are a poor substitute for the 400 millions of China and the luxury purchasers of the United States.*

Three facts stand out clearly from this analysis. The first is that China, amorphous, unorganised, distracted by flood, invasion and internecine rivalries, is nevertheless, by the most modern measurement of political forces, more powerful than the Island Empire with its modern technique and its highly developed naval and military machine. The

* The facts regarding Manchurian trade are conveniently summarised by Dr. Herbert Feis, now Economic Adviser to the U.S. Department of State, in a pamphlet published in April, 1931, by the Carnegie Endowment (No. 269).

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second is that the establishment of good relations with China on a durable basis, which must be a basis ensuring self-respect for both parties, is a vital interest for Japan. The third is that, quite apart from the immediate problem of Sino-Japanese relations, the Far Eastern situation has brought to light general issues of international economic policy which the world can no longer afford to shirk.

IV. THE COLLECTIVE SYSTEM IN THE FAR EAST

THE Sino-Japanese conflict is the most testing experiment to which the collective system, compounded of the Covenant of the League of Nations and the Kellogg Pact for the renunciation of war, has yet been subjected. Let us, in conclusion, briefly examine how matters now stand in this regard.

The object of the collective system is to establish the rule of law in the world. The States that are parties to it are pledged to refrain from taking the law into their hands for the redress of grievances, however legitimate. Thus, so far as the collective system is concerned, the foregoing analysis is irrelevant to the present issue. "It is clear beyond peradventure," in Mr. Stimson's words, that Japan, by her action on and since September 18, has violated the two general and one of the regional agreements on which the peace settlement in the Far East had been built up. That settlement is, for the moment, if not in ruins at least seriously shaken, and so is the agreement between the three chief naval Powers which was the consequence of, and interdependent with, the Far Eastern political arrangements. Unless and until confidence can be restored between the signatories to these various treaties, conditions in the Far East must remain precarious. That neither of the major parties to the dispute, though they have fought pitched battles and been engaged in trench warfare, should have declared war, and that the League of Nations should

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have equally closed its eyes to patent facts and thus refrained from putting into force its sanctions against the aggressor, are two important elements in a complicated situation and may ultimately facilitate an adjustment. But the fact remains that, morally, a state of war exists. During the long-drawn closing phase of the South African war Lord Rosebery urged that the protagonists should arrange to meet for a quiet talk "at a wayside inn." The war to-day is as real, and spread over as wide an area, as that which ended in the reconciliation between Botha and Milner. The wayside inn may perhaps be conveniently found in Geneva, famed for the gastronomical resorts in its vicinity. But all the arguments of lawyers and the juggling with texts cannot alter the fact that peace has been broken and remains to be restored.

It is of little avail to dwell in retrospect on the handling of the conflict by the Council of the League of Nations between September and February, or to speculate upon the course that events might have taken, had less reliance been placed upon conciliation and persuasion, or if there had been more perfect team-work between the League of Nations and the United States. "If only China had shown something of the spirit of Belgium," remarked in January one who had been closely associated with the Council's proceedings, "it would have been easier to help her." The heroic resistance of the Chinese troops outside Shanghai supplied the Belgian touch. Chinese political leaders plucked up courage to appeal to the Assembly. That body, which had allowed itself to disperse in September in the belief that the Manchurian incident would be quickly disposed of, now showed unexpected vigour. Mr. Stimson, in his letter to Senator Borah, laid down a new doctrine of non-recognition which the Assembly adopted and thus invested with a kind of collective sanction. Finally a Commission of nineteen members of the Assembly was appointed to sit in permanent session to ensure that the resolutions for the evacuation of Shanghai and Manchuria

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by the Japanese were being carried out. Meanwhile, the Lytton Commission, the one product of the Council's deliberations between September and Christmas, had arrived in the Far East and has now, after a successful diplomatic tussle, entered Manchuria together with a Chinese assessor, Dr. Wellington Koo.

Taken together, these proceedings indicate the emergence of a new technique for the working of the collective system. They may even point the way for the breaking of the deadlock in which it has been involved during the last twelve years by the conflict for priority between security on the one hand and disarmament and treaty-revision on the other. For the doctrine of collective non-recognition, coupled with voluntary economic sanctions put in force by the public opinion of the peoples most closely concerned, may be found to provide a weapon against the aggressor no less formidable, and therefore no less effective as a deterrent, than the more comprehensive military, naval and other measures from which public opinion in the English-speaking countries instinctively shrinks. On the other hand, the Lytton Commission is charged with a task which, in fact if not in name, involves a revision of existing treaties: for it is barely credible that, if it grapples with its task in a broad-minded way, its recommendations will not include some modification of the legal rights both of the two disputants and of the other Powers. The Commission indeed has a historic opportunity: it may yet do for the League of Nations what Lord Durham did for the British Empire, and Lambton and Lytton may be twin names in the pages of history.*

* The Lytton Commission, in a preliminary report, records that, as against 10,590 Japanese troops in the South Manchuria Railway zone last September, there were, on April 30, 6,600 Japanese troops in that zone and 15,800 outside it, together with 85,000 men of the "Manchukuo Army," largely directed by Japanese officers. There were besides 119,000 local police. These forces were opposed, according to the Japanese—the Chinese put the figures rather higher—by 43,000 Chinese regular troops, about 40,000 volunteers, and 52,000 bandits. The Commission purposely refrain from comment at this stage.

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But all this is still in the realm of conjecture. No one at this stage can forecast the pace at which events will move. But their direction is clear from the political and economic forces that are inexorably at work. In shaping these for constructive ends, for the lasting benefit of the Chinese people and their neighbours, Great Britain has, as the Marquis Ito suggested nearly thirty years ago, a unique part to play. For we are not only the oldest of the Western Powers to have close contact with China: we have a political system which, in contrast with that of Japan, has passed through what may be described as the early modern period of efficient centralisation and taken on a new flexibility, inspired by an inner discipline comparable to, though very different in its expression from, that which constitutes the moral strength and cohesion of China. China presents the greatest political problem of our age—all the greater, and the more hopeful, because it is in essence not political but educational. To politicize Confucianism is to enrich the West without disintegrating the East. Only China herself can solve her own problem. She is engaged in searching all things in the Western world. She will assuredly end in estimating them by her own traditional values and in holding fast to that which is good. But in that task, not of a day or of a generation, we of the West, if only we will recognise that the real meaning of the Far East for us is not trade but wisdom, may well render helpful service. The first condition of helpfulness is understanding: and the first condition of understanding is that the problem of the Far East should be a living issue in the minds of our statesmen and brought home by them, with all the resources of fact and interpretation at their disposal, to the minds of their fellow-countrymen. September 18 came like a thief in the night, both for the League of Nations and for ourselves. Events, which could not have been foreseen, have afforded us a second chance. Let us not misuse it.

THE SHANGHAI STANDPOINT

IN the five weeks that have passed since the nightly glare of the fires died out of the sky over Chapei and the bombing and gunfire ceased, a bruised and battered Shanghai has had time to take stock of the damage and sort out its ideas of the future.

The immediate visible damage has fallen mostly on the Chinese—the devastation of a huge area north of the Settlement, a big loss of life and the destitution of tens of thousands of the poorer inhabitants. The even greater invisible damage in the form of stoppage of business and trade has hit Chinese and foreigner alike. Its extent is as yet not calculable, though some indication is given by a drop of about 70 per cent. in the Shanghai customs figures. At the time of writing the Chinese shops have been boarded up for over two months, while the Chinese native banks—an essential cog in the financial machine which carries the trade of the port—are still out of commission. "Confidence" has been shattered and—most serious of all—a sense of insecurity utterly crippling to trade is expected to persist after the present crisis is over.

The reason for this expectation is that, quite apart from the Japanese trouble, conditions before the crisis are considered to have contained the germs of a clash like the present. There were, people believe, a number of latent dangers in the situation. The three generally mentioned as being the most important are the inadequacy of the ordinary legal safeguards conjointly with the Chinese tendency towards organised anti-foreignism, the standing

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liability of having Chinese armies of uncertain allegiance stationed about the borders of Shanghai, and the absence of satisfactory working arrangements between the international government of the Settlement and the Chinese government of Greater Shanghai. (Readers of the Feetham Report on Shanghai* will remember a similar series of points in the Judge's discussion of the question of "security.")

The general feeling about the risks of returning to the old footing is leading to various proposals. These fall into two classes. The first is based on the idea of protecting Shanghai by ringing it off from the rest of China. This idea takes form in schemes for a "Free City" or an internationalised zone under the League of Nations. It is fairly obvious that schemes so radical as this would become practical politics only if the political disintegration of China were to reach the stage of chaos. The other class of proposals aims rather at removing specific dangers. The idea is mooted of a Sino-foreign "super-authority" over the whole Shanghai area to deal with defence and law and order. But more moderate opinion argues in this wise : "We share the feeling about the present need for comprehensive reforms, especially those along the lines of the Feetham Report, but Japan's violent action has made it extremely difficult to put forward demands without the appearance of exploiting the military situation for our own advantage. This we are bound to avoid. We must therefore limit ourselves to the bare essentials necessary for giving Shanghai a reasonable measure of security against future armed clashes." The difficulty is to define "essentials." Opinions vary, but the following principal suggestions are commonly brought up : the reform of the Chinese court, demilitarisation in the Shanghai area, an arrange-

* Report of the Hon. Mr. Justice Feetham, C.M.G., to the Shanghai Municipal Council. (Messrs. John Pook & Co., 68, Fenchurch Street, E.C.2.—price 8s. 6d.) See also THE ROUND TABLE, No. 84, September 1931, p. 738.

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ment with the Chinese about the "extra-settlement areas" (the subject dealt with in Vol. III of the Peetham Report). The first arises partly from the behaviour of the court during the period of tension before the landing of the troops, when members of the boycott societies which had forcibly seized Japanese goods were acquitted on the ground of patriotic motive; partly also from a general feeling that the court has from the start been under political control and failed to dispense justice. The suggestion of demilitarisation needs no comment beyond saying that it raises formidable problems of military and financial responsibilities. The third suggestion regarding the "outside" areas is justified by its authors as a step towards the removal of a dangerous source of friction; in some people's opinion, however, it comes rather too perilously near to asking for chestnuts picked from the fire by Japan.

These are briefly the safeguards which Shanghai believes to be necessary for safety and the restoration of confidence. Can they, and how can they, be obtained? So long as there is a Government of China the changes involved in these safeguards can only be brought about by voluntary agreement between that Government and foreign Powers, since arrangements under duress are *ipso facto* rejected by members of the League. They must therefore come, if at all, as part of a mutual settlement between China and Japan, or else because the League (or some other grouping of Powers) raises the Shanghai issue as a distinct question brought up on its own merits in the interests of world peace and on account of its economic importance to all parties concerned. The League Commission, when recently here, had its attention drawn to the Shanghai question, and the suggestion has been made that it might be raised at, or immediately after, the proposed Round Table Conference, if the latter eventuates.

About the Chinese response one cannot be very optimistic. China at present is in no mood for concessions. On the other side is the undoubted fact that thousands of

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Chinese, including many men of position, are keenly anxious to see Shanghai put in a better position of safety in so far as this can be done without loss of national face. Agreements with China for the better security of Shanghai need not, however, be entirely one-sided, and China's self-respect might well allow her acceptance of proposals issuing from the League which, coming from another quarter, she would unhesitatingly reject.

For any solution of Shanghai's problem the *sine qua non* is, of course, a peaceable settlement of the Sino-Japanese conflict. Concerning this Shanghai is not at the moment of writing feeling hopeful.* A mutual settlement implies on Japan's part a certain degree of withdrawal and on China's a certain degree of recognition of Japan's gains in Manchuria. Japan's national pride has become so implicated through her initial military check that it seems impossible for her to take the first step, while China, flushed by the success of the XIXth Army, is equally unready to make any concession. The League Commission is working to build a bridge, but its bricks are the strawless bricks of unbacked persuasion and there is little confidence in its success. The position is made worse by China's domestic differences, which are at present barely concealed. Nanking and Canton are still unreconciled, while the Kuomintang and its whole system of government are becoming the object of a concerted attack.

Looking back to the causes of the crisis, there is still much variance of opinion concerning the blame for the outbreak of fighting on January 28. A major part of the blame is ascribed to the Japanese admiral, but a tendency also exists to credit the Chinese XIXth Route Army (which had

* As regards the military operations in Shanghai itself, an armistice agreement was signed on May 5, whereby, while the Chinese troops remain in their actual positions, the Japanese forces undertake to withdraw, beginning within a week, to the International Settlement or to a limited area outside. Japan has since announced the withdrawal from Shanghai, within a month, of all troops except 2,000 bluejackets. (See *The Times*, May 13.)

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(recently come north in the rôle of a "bodyguard" for the Cantonese leaders) with hostile intentions against the International Settlement, though the supporting evidence for such a suspicion is slight. On the subject of "war guilt" in general, opinion is likewise not fixed. The resident in Shanghai is inclined to look past the events of the last six months to the years behind when the trouble was gradually brewing and when not a little of the provocation of which Japan complains was suffered by all foreigners alike. This does not, however, mean that Japan is absolved for her acts of aggression, and the "League" aspect of the case has been kept well and ably to the fore in the *North China Daily News*, the leading journal of Shanghai.

Shanghai.

April 1932.



INDIA : ORDINANCES AND REFORMS

OUR March article described the events leading up to the *dénouement* of last December and showed how the Government were determined to put down the subversive activities of the Congress and, simultaneously, to proceed with the inauguration of the new constitution. We propose in this article to review the more important events of the succeeding period, and to indicate briefly the reactions throughout the country and the progress achieved in the constitutional field. An accurate appreciation, however, in correct perspective, of the constantly changing factors and the many conflicting interests, at such a short range, is no light task. "Delhi," says the proverb, "is a far cry." In many districts in many provinces life once more seems to proceed, with an occasional rude interruption to its serenity, but for the most part little changed, on its immemorial way. To the local officer and the villager—and most of the people of India live in villages—the Government of India appears remote, unreal and of little practical significance in the day-to-day administration of the country. Delhi, on the other hand, during the winter months is the mainspring of the Indian political world, for, just as all roads led to Rome, so all politicians go to Delhi, and perhaps on that account create the illusion that the country is generally on the verge of crisis. Thus the close observer of events may easily, according as he sees things from the view point of the provinces or

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the centre, reach conclusions too optimistic or too gloomy. In the second place, no sharp line of demarcation can be drawn between the political and the constitutional positions : the one reacts upon the other, and no real improvement can take place in the former until the latter shows visible and tangible results. The longer the delay the more difficult becomes the prospect of a peaceful and honourable solution, and the situation is further complicated by the economic depression from which India, in common with most countries in the world, is now suffering.

I. THE GOVERNMENT AND CONGRESS

CONGRESS threw down a challenge last December which no government could ignore and attempted to impose conditions which no government could accept. Their avowed object, since the Government's prompt repudiation of their pretensions, has been the paralysis of the administration regardless of the consequences of their action, either upon the well-being of the State or the personal freedom of its subjects. In taking vigorous measures against them the Government of India has been fighting the battle of constitutionalism against anarchy ; and no government could adopt a different policy consistently with a due sense of its responsibility. In spite, however, of having been worsted in the preliminary and succeeding rounds, the Congress persist in their familiar wrecking tactics. Their general scheme is to maintain excitement at all costs, to keep a ceaseless supply of volunteers for the "martyrdom" of imprisonment, to defy all lawful orders prohibiting meetings and processions, and to exploit the conduct of the executive authorities, by fair means or foul, to their own advantage, whether as a means of inflaming feeling against the Government or for the purpose of propaganda abroad. Since our last article they have concentrated mainly on the celebration of anni-

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anniversaries—Gandhi Day, North West Frontier Province Day, Independence Day, Martyrs' Day, and National Week—on flying Congress flags on public buildings and on an economic boycott and picketing, in which considerable success, especially in the city of Bombay, has been achieved. Their trump card has been to provoke, if possible, clashes with the magistracy and the police in the hope that some untoward incident—an unfortunate death by firing or the possible injury of women or children—may bring about a violent revulsion of feeling in their favour. On the whole, the celebration of anniversaries has met with little response and has disclosed the inability of the Congress to maintain agitation on a large scale throughout the country generally. Here and there, local embarrassment has been caused—a bonfire of foreign cloth on Independence Day in Bombay attracted excited crowds and led to the burning of a police station ; on Gandhi Day bands of hooligans in Delhi lighted bonfires of foreign cloth in the city, stopped tramcars and assaulted constables. The Frontier Day celebrations passed off without any serious incident. National Week was celebrated from April 6 to 13, and vigorous attempts were made to revive agitation. Apart, however, from organised and violent rowdyism at Allahabad, and, in a lesser degree, at Cawnpore, and some intensification of activity in the direction of picketing and *bartals* in Bombay and Delhi, it aroused little general excitement. The events at Allahabad are noteworthy for the deliberate attempt to win public support by exaggerated accounts of the ill-treatment of Indian ladies, especially Mrs. Motilal Nehru. These statements were shown to be false.

The Government have been vigorous but not vindictive. Their policy has hitherto been successful and, consequently, many parts of India show a return to comparative normality. There has been a welcome response from various quarters and loyalist organisations have been established in the provinces. Governors, commissioners and district

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magistrates have done much by holding *darbars* and public meetings to rally the more stable elements to their side. An influential group of members of the Legislative Assembly and the Council of State has organised an Indian Dominion League on a non-communal and non-sectarian basis, with branches in each province, with the object of attaining Dominion status for India by constitutional means, and by the mobilisation of public opinion against lawlessness and terrorism. The ruling chiefs with one accord have approved of the measures taken by the Government of India, and in loyal communications to the Viceroy have made it plain that they will tolerate in their own States no interference on the part of Congress emissaries. The Government, by seizing the initiative from the start, now have the civil disobedience movement well under control, though any relaxation of effort would bring about a rapid deterioration of the situation. Prosecutions are declining in number, government revenue is coming in satisfactorily, even in Gujerat, the stronghold of Mahatma Gandhi, and resignations of office are almost unknown. The deliberate policy of Congress in fomenting trouble and disaffection in rural areas has met with comparatively little success. In the cities, demonstrations and processions have, for the most part, failed to keep excitement at the desired fever heat, and the numbers attending them are steadily decreasing. The sequestration of Congress funds, the more adequate control of the press, the arrest of the leaders and offenders generally, and the policy of release on tendering apology—a concession of which many are not slow to take advantage—are factors which have, to a large extent, weakened the power of Congress.

Attempts, however, to make capital out of the methods of the police and the alleged ill-treatment of women are frequent. In this way incidents, trivial in themselves, often obtain undue importance from the prominence given to them in the nationalist press, and from the temporary excitement exhibited in the legislatures—

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central and provincial—where baseless charges are not infrequently made against executive officers. The action taken by the police in India is actually less severe than that of the police of Western countries in dealing with riotous mobs. Casualties are comparatively few and the so-called *lathi* charges—i.e., the dispersal of turbulent crowds with cudgels and sometimes with sticks—are only ordered in the last resort and after the police have been stoned, abused and insulted by defiant mobs. The attitude of Congress is indeed hypocritical: for both they and the revolutionary party have been quick to take advantage of the position of their women supporters. The terrorists have deliberately appealed to women to join the movement and to commit murders, while the Congress leaders advise the placing of women and children in the forefront of their demonstrations in order that they may gain a tactical advantage if, in the unavoidable resort to force, injury is caused to such defenceless persons. The real truth is that officers of government have used the special powers conferred on them by the ordinances sparingly and with strict regard to the necessities of the case. The police, when they have been compelled to use force or to fire, have, for the most part, behaved with exemplary moderation, and when dispersing mobs, as far as practicable, detach the women and children and keep them in safety.

In one direction only has the Congress policy obtained any substantial success—and even there it is difficult to estimate its exact measure, owing to the general trade depression. The silent boycott of British goods is one of the main features of their programme, and the slogan "Buy Indian" proves attractive. Secret persuasion and fear of social boycott are too strong for many, and others, though out of sympathy with the methods of Congress, gladly confine their purchases as far as possible, to *Swadeshi* goods. On the other hand, there is growing resentment at the interference with ordinary daily life caused by picketing; and its spectacular extension to railway stations,

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post offices, banks, chemists, shops and petrol stores has not advanced their cause. In the eyes of the Congress a general economic boycott is a very powerful weapon and the "surest means of bringing the British Empire to its knees" in a comparatively short time. The Viceroy in a recent letter to the Western India Liberal Association wrote :

The Government have abundant evidence that those responsible for the present civil disobedience movement are pursuing the same policy as in 1930 and, further, the boycott of British goods is being used not as a political weapon but as part of a general policy to cripple financially the Government of India and Great Britain. It, in fact, is an outstanding feature of the movement, which is designed to subvert the Government and which is prejudicial in the highest degree to the maintenance of law and order. As such it is essentially different in purpose and principle both from the campaign in England in favour of British goods and from a genuine economic industrial movement in India in favour of Indian industries pursued by constitutional means.

In Bombay the effects of this policy are particularly apparent. In addressing the Legislative Council the Governor severely criticised the policy of a section of the mercantile community in supporting the Congress movement. "There are signs," he declared, "that Congress activities are driving business from Bombay to other commercial centres, and when the tide turns, as it must turn, there is danger that we should find Bombay, which has so often claimed to be the first city in India, passed by the returning flood of prosperity." The Congress claim to control and regulate business. The stock exchange was closed altogether for a time. The cloth business has been seriously affected. The Cotton Brokers' Association decided that dealings in cotton should be allowed for the months of July and August in the interests of the agriculturists and producers, and that business should be resumed for three days a week. Congress thereupon issued leaflets to the effect that "Congress permitted" these transactions, and *inter alia* laid down as conditions "that commercial and

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insurance firms and banks which were against the interests of the nation should be boycotted, and that cotton merchants should not take part in the export of gold." They have also tried to enforce restrictions upon the import of foreign watches and clocks and, in view of the commitments of business houses, have graciously been pleased to give them until the end of April to clear. After that date picketing will be imposed. It is indeed deplorable that the mercantile community of Bombay has mixed up politics and business and has tamely submitted to this coercion, which is at least a contributory cause of the diminution of Bombay's trade.

We may now supplement this general account with a brief reference to affairs in the provinces. Conditions are fairly normal in Madras, the Central Provinces, Assam, Bihar and Orissa, and most of the districts of Bombay. There has now been a great improvement in the United Provinces, where the no-rent campaign appears to have been scotched. Attempts may be made to revive it in the slack agricultural months of May and June, but there is little prospect of success.

In the Punjab the civil disobedience movement is well under control, but there has been considerable communal tension due to the Mahomedan's uncertainty about the North West Frontier Province and Kashmir, and their special claims as regards the new constitution. The more extreme Sikhs also—the Akalis—are inclined to throw in their lot with the Congress. The grievances, however, of the Mahomedan subjects of Kashmir are being redressed. Action is being taken on the report of the committee appointed by the Maharajah to enquire into them, and the Kashmir Reform Conference is likely to recommend substantial representation of Mahomedans in a State Assembly.

The outstanding event in the North West Frontier Province has been the inauguration of the province as a governor's province instead of, as hitherto, a local administration directly under the Foreign Department of the Government

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of India. The first elections held in the province were keenly contested. Nowhere in India is the political barometer more liable to rapid change than on the Frontier, and a sudden drop from set fair to stormy, or equally a sudden rise in the opposite direction is not an uncommon feature. There is thus need for constant vigilance, and prophecy is idle, but there is a widespread expectation that the people of the province will be gratified and Moslem feeling in India as a whole considerably relieved by this prompt carrying into practice of the recommendations of the Round Table Conference—the more so as the new constitution is only a brief novitiate. This province will also participate in any measures of reform which may be extended to other governors' provinces. The situation has had its dangers. The elections and the release from prison of a number of Red Shirts led to some recrudescence of Red Shirt activity. At Charsadda and Mardan voters were intimidated, loyal people were assaulted, attempts at obstruction took place and bands of Red Shirts had on several occasions to be dispersed by force. The tribal area too has given ground for some uneasiness and there is no doubt that Congress and Red Shirt emissaries have been inciting the tribesmen to open rebellion: at one time Mohmand intervention seemed likely, but wiser counsels prevailed following upon aerial demonstrations. At present this particular danger has passed and the omens are favourable. The operation of the Frontier Crimes Regulation has now been suspended as an experimental measure for one year.

In Bengal the civil disobedience movement proper is making no headway—and, indeed, is on the down grade. But it is impossible to speak with such hopefulness about terrorism—the special feature of this province. The dastardly attempt on the life of Sir Stanley Jackson at the Convocation of the Calcutta University aroused widespread indignation, and the terrorist movement has been condemned in unequivocal terms both in the Legislative Assembly and the Bengal Council. But acts of terrorism

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continue. The poison is extending to the schools, and the outrages planned by the revolutionary party are not confined to Bengal. Among recent crimes which appear to be attributable to revolutionary inspiration may be mentioned the murder of a sub-inspector of police in Bihar and Orissa, a post office robbery in Calcutta, attempts at train robberies, and the murder of a mail sorter on a passenger train near Allahabad carrying two lakhs of rupees of railway money.* The Government of India, with a view to strengthening the hands of the Bengal Government, have passed an Act supplementing the Bengal Criminal Law Amendment Act which permits the arrest and detention without trial in Bengal of persons suspected of participation in revolutionary crime. The supplementary Act provides that such persons may be detained in prisons outside the limits of Bengal, and it is hoped that their removal will have a salutary effect. But terrorism remains the most difficult and the most important problem confronting the new Governor, Sir John Anderson, and on its successful solution in large measure depends the future prosperity of the province.

It is, then, apparent that, with the exception of the boycott, which may, perhaps, defeat itself through the natural operation of economic laws, the wrecking tactics of Congress have been unsuccessful. Yet there is no sign of any readiness on their part to admit defeat or to resume co-operation with the constitutionalists. The reason for this intransigence would appear to be the belief that their movement is merely being driven underground by the policy of Government and that their real strength is not seriously impaired. Admittedly the Hindu community as a whole are not hostile to their political programme, as distinct from the methods they have now adopted. Indeed, his dislike of emergency legislation and ordinances, and his failure to see any outward sign of progress in the reforms, predisposes the Hindu

* On April 30 Mr. Douglas, the collector at Midnapore, was shot by two Bengali youths ; it will be remembered that his predecessor, Mr. Peddie, was also murdered.

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co-sympathise tacitly with the Congress, even when he does not go as far as open support. The Congress organisation is by no means broken and some of the wealthiest members of the Hindu community supply generous contributions. Moreover, the Congress know that the ordinances will soon expire and hope that this will give them a fresh lease of life, for when they expire a certain amount of political tension is inevitable—and this will supply an atmosphere favourable to the prosecution of their plans. They have accordingly determined to hold their next session at the end of this month at Delhi as a demonstration of strength, despite the prohibition of Government and the proclamation of the reception committee as an illegal association. There is no intention of considering the possibility of resuming co-operation, for the acting president of the day has declared the object to be once more to proclaim complete independence as the goal of Congress, to endorse the resolution relating to civil disobedience passed at the last meeting of the Working Committee, and to reaffirm that Mahatma Gandhi is their sole representative and spokesman. Mrs. Naidu, the acting president, has been served with a notice not to leave Bombay and has been sentenced to a year's imprisonment for disobeying that order. Pandit Madan Mohan Malaviya, who has been active in urging Congress to hold this session in spite of the Government's prohibition, and who is the acting president elect, has been arrested for defiance of orders served upon him, and so have *jathas* of Congress supporters from the Punjab and many local Congress leaders in Delhi.* In so far as this advertised defiance of Government orders is aimed at kindling the dying spark of enthusiasm for the active prosecution of civil disobedience, it seems unlikely to have much success; but if Government were to declare the Congress as a whole an illegal association (a quite impracticable course) the result would be an

* An attempt was made to hold the Congress in Delhi, but proved futile, as many would-be participants were arrested on their arrival, and all demonstrations were broken up by the police.

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immediate swing over to the side of Congress of many persons who are now opposed to its present methods or are neutral.

The extent to which political sympathy is given to Congress is well illustrated by the line taken in the Legislative Assembly during the spring session by a number of members of the Nationalist and Independent parties. Though the proceedings of the Assembly were dull, protracted and devoid of incident, they afford a fairly accurate index of important phases of Indian public opinion. Party differences and intrigues and the bad parliamentary tactics of the Opposition enabled the Government, with the help of their nominated members, to secure a majority on practically all important issues, but this should not obscure the importance of the views expressed by many Hindu and a few Moslem members about the treatment of the Congress. Four definite points were made—and they have also been made by individuals and associations outside the legislature—namely, (1) that government by ordinance is most undesirable and at best a temporary expedient, (2) that while terrorism deserves the severest condemnation, the present policy of repression is inconsistent with the avowed policy of progress, (3) that the ordinances being limited in duration, the real question is what action will Government take on their expiry, and (4) that no discussion on constitutional reforms can be satisfactory without the participation of the best organised and most united political party in India—the Congress—or, in other words, as long as Mahatma Gandhi is in jail. The short answer to these points is that everyone dislikes ordinances, but when Congress deliberately interferes with the freedom of the people, menaces their lives and property, and substitutes direct action for constitutional political activities, Government must adopt whatever measures are necessary to suppress it. The history of last year, declared the Leader of the House, was in the main a record of patience and forbearance on the part of the Government, who did all in their power to secure the

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representation of Congress at the Round Table Conference, and their co-operation in framing the new constitution of India. Though Congress preferred the barren way of non-co-operation, the Government have maintained their determination to carry out the policy laid down by His Majesty's Government for India's constitutional development. The ending of the present deadlock is thus in the hands of Congress.

II. THE REFORMS

A N acceptable and early solution of the constitutional issue will mark a definite turning point in the political struggle. It might detach the right wing of Congress and should win over the neutrals and consolidate liberal opinion. But there is bound to be an irreconcilable remnant, as in Ireland, which will, no doubt, take heart from the recent utterances of Mr. de Valera. In the past three months, suspicion and distrust have been general owing to the delay in the translation of abstract principles into concrete realities. The opinion was widely held that these interminable discussions are merely a dodge to postpone reforms. After the first flush of enthusiasm for federation, the Princes seemed to be repenting of their earlier acquiescence. A strong body of opinion amongst them was definitely opposed to it—and this fact in itself aroused speculation as to future constitutional development should the principle of federation be abandoned. Many politicians in British India are not enamoured of it, for they apprehend that through the constitution of the Federal Assembly it will operate injuriously to the interests of the provinces. In the Assembly there were two schools of thought ; one group believed that the immediate introduction of provincial autonomy with responsibility at the centre should be conceded, since federation was an extremely complicated business, and since there was danger

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of the indefinite postponement of provincial autonomy and central responsibility if they were to be contingent on the prior determination of the details of federation. On the other hand, the demand was made that the Government should indicate what line they would take if the principle of federation were shelved—would they go back to the Simon Report, with the modifications suggested by the Government of India in their despatch on that report? The position was further complicated by the attitude of the Moslems, who have been in sullen mood. An analysis of their feeling seems to show that a very small section supports Congress; that a second and more powerful section, equally distrustful of the Congress and of the British, is in favour of direct action, and that the third section, also powerful, with whom Maulana Shaukat Ali has definitely thrown in his lot since his return to India, desires an Anglo-Moslem alliance.

The executive committee of the Bihar and Orissa Moslem Conference passed a resolution that as the Government had not yet accepted the Moslem demands and as the communal problem is still unsolved, the All-India Moslem Conference about to meet at Lahore should declare a complete boycott of the Round Table Conference Committees and draw up a programme of direct action for the achievement of Moslem demands. Though the better Moslem opinion was opposed to this policy, it had considerable support, and the Lahore Conference might have precipitated a crisis. Fortunately, a decision was postponed, because the British Government had just undertaken to decide the communal issue. Resolutions were, however, passed declaring that if the Government's decision on the communal question was not announced before the end of June, a meeting of the executive board should then be held with a view to launching a programme of direct action, and that, as the scheme of federation propounded by the Round Table Conference was likely to involve considerable delay, the immediate and simultaneous introduction in all the provinces of British India

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of provincial autonomy should take place while the details of the federation scheme were being explored and worked out. Though the announcement of His Majesty's Government, to which we shall refer shortly, was responsible for the more moderate tone of the resolutions, there was no disposition to compromise with other communities. Indeed, the Moslem demands put forward at this conference go beyond the fourteen points which previously embodied their requirements, and the proceedings of the conference evoked a vigorous protest from the Hindu members of the central legislature, who stand firm for joint electorates. They hold the Prime Minister to his declaration in the House of Commons in January, 1931, when he condemned a communal electorate and all its implications, and they recall the fact that the British Government and the Government of India are already bound by minorities guarantees and treaties as members of the League of Nations.

Amongst the depressed classes a split has now occurred on this question of joint or separate electorates. The Working Committee of the Depressed Classes Association passed resolutions against the group system of voting and election, and in favour of joint electorates with reservation of seats on a population basis. This resolution appears to be due to a pact between Mr. Rajah and the Hindu Mahasabha, and it has been approved by the Hindu and Sikh members of the central legislature and other Hindu leaders. Amongst the depressed classes themselves, feeling is strongly divided, many contesting the claim of Mr. Rajah to represent them and offering allegiance to Dr. Ambedkar, whose insistence on separate electorates is as strong as ever. This pact with the Mahasabha means in reality an accession of strength to the Hindus, and may have repercussions on other communities also.

Thus, what with general suspicion and distrust, communal bickerings, electoral controversy, Moslem sullenness, division amongst the depressed classes, Congress steadfastly non-co-operating and the Princes uncertain about

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federation, the constitutional sky was overcast and the outlook gloomy. But the clouds are slowly rolling away, and there are welcome signs of better weather. In the first place, the decision of His Majesty's Government to settle the communal question has had an excellent effect. The Consultative Committee have before them for examination, in addition to this question, a number of problems ranging over a very wide field, such as fundamental rights, the allocation of functions as federal, central or provincial, the division of legislative powers between the centre and the provinces, the composition, strength and procedure of the federal legislature, defence, financial safeguards, provincial constitutions. On the communal question, which was discussed informally, the members reported that they could reach no agreement and recommended that His Majesty's Government should be asked to decide it as early as possible. His Majesty's Government have since declared that they realise the responsibilities involved in this undertaking and will not fail to discharge them. They are engaged in a careful examination of the difficult and controversial issues involved, and it is their firm intention that there shall be no avoidable delay. This announcement has been well received. The Hindu, Moslem and Sikh protagonists are now engaged in mutual recriminations, each determined on no compromise, and it is too much to expect that the British Government's decision will be acceptable to all parties concerned. But until that announcement is made—and it will be the occasion for another outburst—matters must remain in suspense. The creation of a governor's province in the North West Frontier Province and the developments in Kashmir have undoubtedly had a steady influence on the Moslem community.

The situation has been further clarified by the unanimous decision of the Chamber of Princes to join an all-India federation provided that the Crown will accept responsibility for securing guarantees on the following points : (1) that necessary safeguards will be embodied in the con-

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stitution ; (2) that under the constitution their rights under treaties, ~~treaties~~, ~~treaties~~, or engagements will remain inviolate and inviolable ; and (3) that the sovereignty and internal independence of the States will remain intact and be preserved and fully respected, and that the obligations of the Crown to the States will remain unaltered. No agreement has yet been reached on the numerical representation of the States in the upper chamber, or even as to the expediency of establishing a bicameral federal legislature. These, however, are minor points compared with the bigger question of the unanimity that the Chamber has secured. Lord Willingdon in his recent address to the Princes made it clear that there would be no tampering with their treaty rights, that the Crown would continue to discharge its obligations to the States ; in short, that paramountcy would remain paramount. The Princes' fears, therefore, are largely discounted, provided they in their turn as zealously discharge their obligations to the Crown and to their own subjects. As a result of this decision, the constitutional outlook is distinctly brighter.

Thirdly, much of the spade work of the Committees—States, Federal Finance and Franchise, has been completed and most of the material necessary for constructing the constitutional edifice has been collected. The reports of these Committees will, in due course, be submitted to the Consultative Committee. That Committee will then reassemble in May, and complete its work. The Franchise Committee has been faced with an exceptionally difficult task in elaborating the frame-work of future electorates. As Lord Lothian has pointed out, if the democratic system is to be successful, it must produce a legislature representative of all classes and sections of the people, able to maintain a stable executive in office and containing sufficient men and women of experience and ability not only to man efficiently the various Departments of State but to provide an Opposition supplying a competent alternative to the Government policy. In a recent speech he foreshadowed

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A unanimous report on the more fundamental issues. In India, as a rule, less importance is attached to inconspicuous spade work of this character than to spectacular and often platitudinous generalisations. But the fact that concrete problems are being tackled in a practical spirit, and that they must be solved before the constitution can be cast into final shape, is now more generally appreciated, and public men are abandoning their earlier suspicions of dilatory tactics. Thus steady progress is being made, and the position is more encouraging than seemed possible only a few weeks ago. But it cannot be too strongly emphasised that the need of the moment is prompt decision on outstanding problems and the speedy translation into practice of the undertakings that have been given.

III. THE BUDGET, OTTAWA AND OTHER MATTERS

NO account of Indian affairs during the period of our review would be complete without some brief reference to the more important proceedings of the legislature. In his budget speech the Finance Member reviewed the financial and economic position of the country. Trade depression and internal political troubles, of course, had seriously affected his calculations, and the deficit was greater and the receipts lower than he had anticipated. But the budget will be balanced by April, 1933, and the present financial year, 1932-33, is estimated to produce a surplus of about two crores. The financial situation is, in many respects, encouraging. As the Finance Member put it :—

We have in the past year ridden a storm which might well have ruined us, but we have emerged from it stronger than before. We have overhauled our expenditure and reduced it to a level which should leave us a margin of revenue when any economic recovery begins, and at least substantially ease the financial problems at the start of the new constitution. Difficulties there are which still

The Budget, Ottawa and other Masters

remain to be overcome and tasks to be accomplished. If the Indian public would co-operate in a common effort with Government, this could be done more surely and more easily, but we are determined that it shall be done.

Drastic reductions both in military and civil expenditure have been effected largely with the assistance of retrenchment committees of the Assembly, but taxation, especially income-tax and customs duty, is now, in the opinion of many, at so high a level as to bring in diminishing returns. The pay of the public services has been reduced by 10 per cent. and the high officers of State have voluntarily surrendered a substantial proportion of their emoluments.

The railway budget is, of course, distinct from the general budget, and lack of space makes it possible only to mention the deficit of 947 lakhs, which is anticipated for 1931-32, instead of the usual contribution of 5 crores to the government revenue. In the course of the budget debates the whole field of the administration was reviewed. One of the most interesting demands voted was the subvention of one crore to the North West Frontier Province on its elevation to the status of a governor's province, as it has never been—and cannot be—self-supporting. Provincial patriotism always looms large in India, and it is not, therefore, surprising that much interest was shown in the proposals for the creation of an Orissa province and the separation of Sind from Bombay. The spirit seems infectious, and demands have now been put forward for the establishment of a separate province of Oudh. On the question of the separation of Burma the feeling in the Assembly was that the wishes of the people of Burma were the main consideration, but difficult financial questions are involved. The Finance Member advised, and the House accepted his advice, that both sides should approach them in a spirit of give-and-take with the object of getting a fair deal for the Indian taxpayer. An impartial tribunal would adjudge the question and members of the Stand-

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ing Finance Committee would be associated with the inquiry.

The very important announcement that the Government of India would be represented at the Ottawa Conference gave rise to some suspicion in the Assembly that this was a device to commit the Government of India to acceptance of the principle of imperial preference, a policy to which many Indian politicians are opposed. The main item on the agenda of the Conference is, of course, the discussion of the policy of trade agreements between the different countries of the Empire, and the Government of India have been invited in particular to consider whether, having regard to the new tariff policy of His Majesty's Government in the United Kingdom, Great Britain and India should enter into a tariff agreement embodying a reciprocal preferential regime so designed as to benefit the trade of both countries. The Assembly was satisfied with an assurance that, if the conclusion of a trade agreement is recommended, any changes in the tariff which it may involve will be duly placed before the legislature for its approval, the Government having no desire to effect any such change unless the legislature is satisfied that it is in the interests of India.

Another important announcement related to the position of Indians in South Africa, and the results of the recent mission from India led by Sir Fazl-i-Husain and Sir Geoffrey Corbett. Want of space prohibits any mention of details, but the statement has been well received in the Indian press and by Mr. C. F. Andrews. The programme of legislation was heavy and some contentious measures were brought forward, but two only, other than the Bengal Supplementary Bill to which we have already alluded, need be mentioned—the Sugar Industries Protection Bill and the Indian Air Force Bill. The former is important as showing the strong feeling of Indian public men in favour of the policy of protection. The passage of this Bill drew from all quarters of the Assembly well merited tributes to Sir George Rainy, the Leader of the House, who sponsored the

The Budget, Deviations and other matters

measure on behalf of Government. The significance of the Indian Air Force Bill was not fully realised by the majority of the non-official members, for it seemed to be no more than a collection of technical and disciplinary sections. The importance of the measure is, of course, that it creates an air force for India. Indians are not eligible for admission to the Royal Air Force and the establishment of their own air force marks a big step forward in the problem of Indian defence and the Indianisation of the Indian military machine.

India.

April 15, 1932.

GREAT BRITAIN: THE PROGRESS OF PROTECTION

I. TARIFF AND QUOTA

THE tariff continues to be the outstanding issue of British politics. On February 29 the Import Duties Bill became law, in substantially the same form as when it was first introduced. One or two changes were made in the "free list," and it was this part of the Bill which gave rise to the most interesting discussions at the committee stage. A group of Conservative Members of Parliament moved to add lead and zinc to the list, on the ground that advantage was likely to be taken of the duty by the combine that virtually controls the Empire supply of those metals to raise the price against the British consumer; they were pacified, however, by the Chancellor's assurance that the matter would be brought before the tariff advisory committee at the earliest possible date. On the other hand, 44 Conservatives voted against the Government on an unofficial and unsuccessful amendment to remove meat and bacon from the list. The question of taxes on food is one which unites perhaps more firmly than any other the Liberal and Labour parties in the present House. Two of the largest votes yet recorded against the Government—though only 71 and 72 at that—were mustered first on an amendment in committee to exempt from the 10 per cent. duty all foodstuffs for human consumption, and second on a motion to omit wheat and meat from the operation of an amendment, introduced later as part of the Finance Bill, authorising the removal of articles from the free list on the recommendation of the Advisory Committee. On this issue a number even of the Simon Liberals, who have accepted the necessity of protection in some form, voted against the Government.

Tariff and Quota

The authorisation to differ has been fully exercised by Liberals pledged to general support of the present Government. In the third reading debate, Mr. Isaac Foot, Secretary for Mines, made a furious onslaught on the Bill, protesting that it would "raise the cost of living to the poorest of our people," add to the costs of production and increase unemployment, and that it looked in the wrong direction, that of self-sufficiency instead of international co-operation. By contrast, Mr. Chamberlain, in his final speech, declared his belief that the historian of this period "will applaud and admire the courage and the foresight of this country in shaking herself free from her past troubles, and in taking up a new career hand in hand with the sister countries of the Empire." In the House of Lords, Viscount Snowden uttered a vigorous and comprehensive attack on the measure.

Is protection (he asked) serving the interests of protected countries better than free trade is serving the commercial interests of this country? There can be only one answer given to that question by hard and irrefutable facts. . . . This Bill will pass. As Mr. Chamberlain said, arguments will then pass into facts, and that, my Lords, is our satisfaction in this our temporary defeat. Facts and experience will finally settle this question. Free trade is not dead. There are far more free traders in the country than there were three months ago.

Whether that is so or not, free traders who voted "National" in the general election doubt Lord Snowden's powers of political prophecy, for in a broadcast address during the election campaign he assured "anxious Liberals" that there was no danger of general protection.

The Liberal and Labour press is making a good deal of play with the pre-election pledges of members of the Government, especially those relating to food duties. Partly through the historical tradition of the radical parties, partly on more rational grounds, a tax on wheat goes specially against the grain for them. Surprise was felt, therefore, at the support given by Liberal Ministers, who had differed from their colleagues over the Tariff Bill, to the Bill

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establishing a quota for home-grown wheat, which was introduced immediately afterwards ; Sir Herbert Samuel has revealed, however, that their consent had been obtained before the "agreement to differ" on the broader issue was concluded. It is true that the Wheat Act does not subject the grain to an ordinary import duty, but it provides for a levy on all wheaten flour in order to grant a guaranteed price of 45s. a quarter to British growers of wheat ; hence it is bound to operate in some sense like a protective tariff. The subsidy is only to be given on a limited standard home production, and receipts and expenses are to balance, the whole scheme being administered by an independent wheat commission appointed by the Minister of Agriculture to represent the interests concerned. It has been criticised on the ground that, while protests are constantly heard about the usurpation of judicial and legislative functions by irresponsible officials, the fixation and collection of a tax has been entrusted to a body which is only remotely and indirectly responsible to the electorate. On the basis of present prices, the sum which will have to be raised annually by the levy is reckoned at roughly £6,000,000. This is considered by opponents of the measure, among whom Lord Astor has been one of the most prominent, as an extravagant amount to spend upon a bare 4 per cent. (by value of output) of our agricultural industry—a section of it, moreover, which is indifferently suited to our climate. Supporters of the quota, on the other hand, declare that wheat cannot be considered by itself, but should be treated as a "key" crop in a vital rotation. As, however, the sugar beet subsidy is to be continued—at least while a commission is investigating the case for and against it—at an estimated direct cost in 1932-33 of £2,400,000, which together with a difference between customs and excise duties will probably make the total assistance over £5,000,000, there can be little doubt that so far the arable farmer, especially in the eastern counties, has been particularly favoured.

The Advisory Committee set up under the Import
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Duties Act was forced to hurry by the prospective expiry of the Abnormal Importations duties,* which were imposed for six months only. The Committee's first report was published on April 20, the recommendations being brought into force by Treasury order on the following day. Their statutory terms of reference authorised them to propose additional duties on goods of any class or description not on the free list, which, in their opinion, were "either articles of luxury or articles of a kind which are being produced, or are likely within a reasonable time to be produced, in the United Kingdom in quantities which are substantial in relation to United Kingdom consumption"; they were further directed to "have regard to the advisability in the national interest of restricting imports into the United Kingdom and the interests generally of trade and industry in the United Kingdom." The Committee have accepted the principle of protection implied in those instructions, in recommending a series of additional duties—in most cases 10 per cent., making 20 per cent. in all—on a wide range of articles. Their report contains no explanation of the objects of the duties or the reasons why the Committee held them to be necessary; presumably their view was that those matters had already been determined in the passage of the Act under which they were appointed. "Parliament," they write, "has by the Import Duties Act decided to make use of the instrument of a tariff for the assistance of British trade and industry, and the recommendations we submit will enable effective use to be made of it forthwith." The list of articles subject to the additional duties includes certain luxury foods; pottery and glass; furniture and hollow-ware; iron and steel products such as tubes, springs, wire, screws, bolts and nuts; cutlery, electrical goods; machinery (with the qualification that licences may be issued for the importation, free of additional duty, of items of machinery which cannot yet be produced economically in Great Britain); manufactures of timber, of rubber and of non-ferrous metals; textile manufactures

* See *THE ROUND TABLE*, No. 86, March, 1932, p. 347.

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 and clothing (including boots); soap, dressed leather, paper; cycles, arms and ammunition; cosmetics and jewellery; toys and games. The iron and steel industry, as was expected, has received special consideration.

We are satisfied (wrote the Committee) that the maintenance of a prosperous iron and steel industry in the highest degree of efficiency is essential to the economic progress of this country, while from the point of view of national security it must still be regarded as vital. We accept therefore the preliminary proposition that this industry shall be adequately protected, and protected at once.

As an interim measure, therefore, pending further investigation, they recommended the imposition of a total import duty of 33½ per cent. on spiegeleisen and ferro-manganese and on a wide range of iron and steel semi-manufactures, including ingots, blooms and billets, sheets, bars, angles, forgings, castings, girders, hoops, plates and sheets.

How far the proportions of our foreign trade may be altered by the protective character of the new duties cannot, of course, be foreseen. *The Economist*,* however, has analysed the imports of 1930 according to the duties to which they would have been subject under the new dispensation, as follows :

IMPORTS IN 1930

Subject to :—	From		Total
	Foreign Countries £'000	British Countries £'000	
Free list	198,328	136,719	335,047
Old revenue duties† ..	116,099	55,663	171,762
Old protective duties ..	12,040	1,036	13,076
New duties	409,303	107,485‡	516,788
Total	735,770	300,903	1,036,673

† Including tea.

‡ Exempt from duty.

It will be seen that £594,141,000 of the imports, or 57 per cent., would have been subject to some duty or other. If, among the new duties, rates of 20 per cent. or over are

* April 30, 1932.

Tariff and Quota

If the new duties had been termed protective, then £140,535,000 would have come within the protective tariff, including nearly 70 per cent. of imported manufactures. The depreciation of the pound adds a further, though probably a diminishing, measure of protection on all imports from gold standard countries.

In recommending the new duties to the House of Commons on May 4, Mr. Chamberlain paid particular attention to the question of industrial efficiency.

We have to bear in mind (he said), in trying to use our duties as a means of enabling and encouraging British industry to make itself more efficient, that if we are going to try to lay down the conditions of efficiency without which we will not grant a tariff, we may be withholding from the industry the very condition which is essential to give it the chance of reorganising itself. . . . We do not intend that a tariff shall be allowed to shelter inefficiency. . . . The Committee, no less than the Government, fully realise the danger that an industry might, if given sufficient protection, be willing to sit down under the shelter of that protection and fail to take the steps for reorganisation and re-equipment which perhaps were recognised to be necessary.

The Chancellor went on to say that after the Ottawa Conference the Government would be free to discuss commercial treaties with foreign countries which might involve the lowering of the duties in this country in return for corresponding concessions.

The imposition of the additional duties naturally met with a far from unanimous reception. Free trade Members of Parliament denounced them as "a violation of all the promises made at the general election." The Director of the National Union of Manufacturers welcomed the duties, declaring that "on the whole they look like a very sound, cautious beginning, which will not please everyone but which lay the foundation for an all-British national tariff." There were, of course, numbers of complaints, both from parliamentary and from industrial quarters, that the duties were not high enough. The wool textile manufacturers especially lamented that after having a 50 per cent. tariff

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under the Abnormal Importations Act, they were being fobbed off with a mere 20 per cent. ; but a delegation from the trade got no satisfaction out of the Committee, who explicitly refused to regard the rate of duty imposed under the Abnormal Importations Act as a precedent. The Advisory Committee is now engaged in considering applications from industries and from interested individuals for the revision of the duties. It will be instructive to watch this method of tariff-making in practice. So far, it appears to have caused a certain amount of disappointment.

Tariff adjustment (said Mr. Baldwin in a speech on July 17, 1931) must be taken away from ordinary politics. By this I mean that government action must be founded on full and impartial information—information available not only to the Government but to every citizen of the country who cares to study it, so that it is not being done in secret.

It is true, indeed, that the Advisory Committee has withdrawn the tariff from the sphere of parliamentary lobbying (as a group of M.P.'s from the wool textile areas found when they were politely referred by the President of the Board of Trade to the Committee, and then told in effect that they had no *locus standi*) ; but the "full and impartial information available to every citizen" has not been so much in evidence. The Committee were so much pressed for time that they had "to proceed on the basis of the information which has been collected by the Board of Trade in recent years, supplemented by such enquiries of a general character "as they had been able to make in the time available." Conservative Members of Parliament have been heard to complain that this was a process which Parliament could very well perform by itself without delivering one of its most important functions, that of tax-raising, into the hands of an irresponsible triumvirate.

A further important issue was raised in connection with the silk industry. The Advisory Committee was debarred from recommending a duty on silk or artificial silk because these commodities were already subject to the revenue

The Liberal Reaction

duties imposed by Mr. Churchill. The Chancellor of the Exchequer, therefore, realising that the lapse of the Abnormal Importations duties, by which the industry had benefited, gave it a real grievance, proposed to invite the Advisory Committee to submit recommendations for its protection, although their conclusions would have to be implemented by a Finance Bill and not merely by Treasury order; and meanwhile to impose "rough-and-ready" provisional duties, equivalent in most cases to an additional 10 per cent. The voluntary use of the Advisory Committee outside its statutory scope, and the imposition of duties pending its recommendations, form a highly interesting development.

II. THE LIBERAL REACTION

THE new tariff has, of course, roused bitter opposition among the Liberals. In the last three months there has been an obvious movement of the official Liberal party away from the National Government, although the party whips still work in with the government organisation. The executive committee of the National Liberal Federation was particularly vehement.

Since the election (runs a passage in the committee's annual report) it has become apparent that all the understandings and pledges which led millions of Liberals to vote Conservative have gone for nothing, in face of the pressure from an overwhelming Conservative majority; and thus, without any definite appeal to the electorate on this subject, free trade has been destroyed by a Government which the Liberal party helped to establish, and which includes Liberal leaders.

The position of the free trade Ministers in the Cabinet has, in fact, been very strongly criticised by their supporters in the country. The Liberal press has been almost unanimous in demanding their resignation. The executive of the London Liberal Federation, representing about 80 constituencies, decided as long ago as the middle of March that support for the National Government was no

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longer possible. Similar expressions of opinion came from various other parts of the country, and at the annual conference of the National Liberal Federation several delegations demanded the withdrawal of Liberal Ministers from the Government ; a more cautious resolution, however, was accepted ; the Federation, it ran,

hopes that it will soon be possible for a re-united Liberal party to fight independently for free trade and other Liberal causes without entanglement. Meanwhile it declares emphatically the independence of the Liberal party as a whole and its freedom from any obligation to support the policy of the present Government.

The Ministers concerned have naturally been at pains to defend their position.

It may be (said Sir Herbert Samuel on April 26) that events may occur which would compel us to dissociate ourselves from this Administration, but so long as we are substantially of one mind on matters relating to India, Ireland, disarmament, reparations, currency, and so long as we have freedom to express our opposition by speech and vote to the fiscal policy with which we disagree, in our view there is no present justification for that course.

These circumstances powerfully favoured Mr. Lloyd George's "come-back" after his illness. On March 16 he made a speech at the Junior Liberal Club, full of racy quips and vigorously denouncing the National Government, which he called "a naked sham—or if not a naked sham a sham with the meanest of loin-cloths." This speech was enthusiastically greeted by the Liberal press, and, with his other utterances, won for Mr. Lloyd George more popularity among the ranks of the Liberals than he has enjoyed, probably, since the war, but thenceforward he has kept very much in the background and has scarcely ever appeared at Westminster.

III. LABOUR AND THE MEANS TEST

THE attitude of the Labour party on free trade and protection has not been quite so unequivocal. The Labour members of the Government are now, of course,

Labour and the Means Test

completely estranged from their former colleagues in Opposition, but it is significant that Mr. MacDonald wrote recently that "on this matter (protection) the Labour movement has been divided for a long time." It is open knowledge that the late Labour Government toyed for a while with the plan of a 10 per cent. "revenue" tariff. The Independent Labour party and the left wing generally are inclined to regard the whole fiscal issue as a minor incident of the decline and fall of capitalism. Less revolutionary leaders, like Mr. Lansbury and Mr. Ernest Bevin, have expressed themselves in a similar sense.

I am not sorry (declared the latter) that the country is trying tariffs, because this generation has seen unemployment grow under free trade, and it will find that tariffs cannot cure unemployment, with the result that the country will be driven to the alternative of socialism at the next election.

Nevertheless there is a strong tradition of free trade behind the Labour movement, especially in its co-operative affiliations, and its organ, the *Daily Herald* (which now has a circulation of over a million and a half) has consistently opposed recent protectionist measures.

Hence a working alliance on the basis of free trade between the Liberals and the more moderate sections of the Labour party is not out of the question, but the possibility of its electoral success is, of course, a matter only for the most distant speculation. It is, however, at least clear that there are important elements which have not accepted the tariff as a *fait accompli* which it is futile to seek to undo. This political uncertainty may be unfortunate for industry, but it can hardly be avoided in a country with the history and with the economic structure of our own.

Much of the debate (said Mr. Baldwin in the House of Commons on February 9) has run on the difference between the permanent and the temporary nature of a tariff. There is no such thing as permanence in politics. Whatever one Parliament does it is in the power of another Parliament to confirm, to increase, to diminish, or to abolish.

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But it is far too early to forecast the future of the fiscal controversy in Great Britain. The experience of the Dominions suggests that the trade unions may come to support tariffs as a cherished vested interest, and the Labour party will certainly continue to rely on the trade unions for a large part of its support.

At present the party and the unions are largely pre-occupied with the question of the unemployment benefit "means test." This was applied, it will be remembered, by the first National Government in connection with applications for "transitional" benefit (*i.e.*, the dole proper, granted for a limited period after the applicant's insurance rights have expired). The administration of the test was entrusted to the local Public Assistance Committees, and it is the variation between one area and another that has given rise to the greater part of the complaint. Some of the more glaring discrepancies are shown in the following list, which relates to the period November 12 to January 23.

	Cases determined.	Full rates allowed. Per cent.	Partial rates allowed. Per cent.	No benefit allowed. Per cent.
Great Britain ..	1,884,074	50	35	15
London ..	99,683	55	19	26
Lancashire (to February 3) ..	89,239	23	33	44
Yorkshire, West Riding ..	66,893	64	24	12
Glamorgan (to February 3) ..	43,109	93	4	3-

These figures must be treated with some caution. The fact that in Lancashire 44 per cent. of claimants received no benefit, whereas in County Glamorgan the ratio was 3 per cent., does not necessarily imply that the administration in Lancashire has been harsh and in Glamorgan lavish; it may mean—and to some extent it certainly does mean—that in the textile areas, where short-time has to a large

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extent taken the place of continuous unemployment and where it is customary for wives and daughters to go to work, the family income is enough to go round far more often than in the Welsh coal villages, where there are neither jobs for women nor chances of alternative employment for the men, numbers of whom have not had more than a few weeks' work in the past five or six years. Nevertheless there is undoubtedly a great deal of variation between one locality and another in the way in which the law is administered, and the Ministry of Labour persuaded the Glamorgan Public Assistance Committee to withdraw their over-indulgent rules. There seems to be a case—as even the *Morning Post* writes — for the Ministry of Labour (rather than the Ministry of Health, which supervises the poor law) to be given charge of the administration and to draw up a plan of allowances, settling what means shall be taken into consideration and what shall be ignored. It has also been suggested that the problem should be attacked from the other end, to wit, that the administration of the poor law, which was transferred five years ago from local boards of guardians to county councils, should be still further centralised.

There remains the question of what resources should be taken into account in assessing a man's qualification for benefit. There are three groups of beneficiaries who could protest undue hardship ; namely, those who, having contributed higher trade union fees than their fellows, find that their unemployment pay from the union is taken into account in considering their claim to benefit ; those who are forced to dispose of capital, such as savings bank balances or their own houses, while their thrifless neighbours receive the full allowance ; and those whose benefit is reduced on account of disability pensions. On all these points, it appears from the debate in the House recently, a more generous policy would probably be supported by members of all parties. There will, however, always be anomalies in one direction or another. A family means test, while it

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certainly cuts down the cost of a very expensive service and confines to the needy the grant of public moneys, is bound in some measure to penalise the thrifty and to make unemployed Lears profit rather by the Gonerils who forsake them than by the Cordelias who assist in their support.

The operation of the means test and of the anomalies regulations has naturally affected the live register of unemployment, since some of those deprived of benefit have ceased to register. The Ministry of Labour reckons that on this account 157,000 persons (over half of them married women) fell off the register, without obtaining employment, between October and March. Including 14,000 who fell off for other reasons, the unemployment figure of 2,567,000 on March 21 would thus be raised to 2,738,000 in order to make it comparable with the figure of 2,580,000 recorded a year beforehand.* Some attempt has been made by Labour spokesmen to associate the number of those deprived of unemployment pay with the increase of 154,000 that took place, during the year ended March 31 last, in the number of persons in receipt of poor law relief. But unless the means test were being very ineptly administered there could not be any substantial connection between the two. Labour policy appears to have hardened somewhat on the means test. For a while the party leaders were inclined to accept a test as necessary in principle, while denouncing its present administration, but in the debate in the House of Commons on the Bill to extend the power to make "transitional" payments for another year, Mr. Lawson, who was one of the protagonists on the Labour side, openly declared that

As far as we are concerned, we are for ending the means test, root and branch, without equivocation or qualification,
and he has not since been repudiated by the leaders of his

* The crude unemployment figure on April 25 was 2,652,000; if we add 171,000 for those who had ceased to register though not in employment, the total becomes 2,823,000, which is 303,000 more than the number registered on April 27, 1931. Most of the increase in the month of April was incurred in the coal-mining industry.

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party. Moreover, the Trades Union Congress General Council, which has always been opposed to any means test, has submitted to the Royal Commission on Unemployment Insurance a plan for abolishing the test and for raising the necessary funds by a levy on all incomes.

IV. THE BUDGET

HOW men of public standing can contemplate a further increase of the tax on incomes at this time it is very difficult to understand. Last year the income tax payer was first made to pay five quarters' tax in twelve months ; then he had the standard rate of tax raised from 4s. 6d. to 5s. in the £, and finally he was asked, as a matter of patriotism, to pay with exceptional punctuality and readiness the three-sixteenths of his income which thus became payable to the Treasury on January 1. That he responded magnificently is largely responsible for the balancing of the 1931-32 budget, which closed with a small surplus in spite of the fact that £10 $\frac{1}{2}$ millions of the old exchange reserve account, which had been allowed for in the estimates, were not used. Optimistic forecasts had been made as to the margin which the Chancellor would have in hand for the current year, and while it was apparent that a reduction of the standard rate of income tax was out of the question, most prophets expected some small relief from taxation. The Chancellor's speech on April 19 was therefore highly disappointing, since the only proposal involving a reduction of taxation was an adjustment of the sugar duties designed to increase the colonial preference and to continue as a difference between customs and excise the expiring portions of the present subsidy on home-grown sugar. The one major change in taxation—apart from the general tariff—was in an upward direction, namely, the resurrection of the tea duty, which after a life of three centuries had been killed

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by Mr. Churchill, at the rate of 4d. per pound on foreign
and 2d. per pound on Empire tea.

Mr. Chamberlain's budget for 1932-33 balances, with a small surplus, at £766·8 millions, omitting self-balancing revenue and expenditure. This total includes £32·5 millions for the reduction of debt—barely enough to cover the specific sinking funds. The budget has been cast up without including either receipts or payments in respect of war debts and reparations, which means that, if America insists on her legal rights while Germany remains unable to pay, we shall be faced with a further budgetary liability before the end of the year. The Chancellor has had to allow for a reduction of £38 millions in the yield of income tax and surtax, compared with receipts last year, and it is obvious that no source of revenue and no substantial economy could have been safely discarded. He legitimately challenged opponents of the 10 per cent. tariff to show him where else he could have found the £27 millions that he expected the duties to yield ; he added, besides, another million for the Abnormal Importations and Horticultural Products duties, and five millions for the additional duties recommended by the Advisory Committee. It was not a cheerful budget. The British people, grumbling but not grudging, had tightened their belts by a rather painful hole last September, and now they realised that their vitals must remain so contracted for another year at least. The denial of a penny a pint off beer, which had been generally expected, added particularly to the universal gloom.

The most remarkable chapter of Mr. Chamberlain's financial statement did not concern the budget proper at all, but related to the setting up of an "exchange equalisation fund" for the purpose of strengthening the currency and checking undue fluctuations in the exchange value of sterling. The Treasury is to have power to borrow (probably, said Mr. Runciman, by way of Treasury bills), a maximum of £150 millions for the fund, which will also start with a legacy of £25 millions from the old exchange

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reserve. The fund will be used for three ends : to make good any loss, up to £8 millions, incurred by the Bank of England in connection with its foreign credits of last summer ; to enable the accounts of the Bank's issue department to balance despite the valuation of the foreign exchange held against notes at market prices while the gold is still entered at the old par ; and to prevent what the Financial Secretary to the Treasury described as "sudden and unmanageable lurches from one side to the other" in the exchange value of sterling, by means of the purchase or sale of gold or foreign exchange—"the international book-making business," Mr. Maxton called it. The account will be managed by the Bank of England under the authority of the Treasury.

The Government steadfastly refused to be drawn as to their ultimate monetary policy.

When you consider (said Mr. Chamberlain) the economic disturbances which are still occurring in the world, and of which we have probably not even now felt the worst, it is perfectly useless to pretend that we can hold our exchange position exactly as we please, independent of anything which is going on around us . . . We do not know what is going to be the future of gold prices. We do not know what settlement will be reached as regards reparations and war debts, and other matters, which are now disturbing the world. These uncertainties rule out any possibility of our being able to return to gold immediately. We do not know when or in what circumstances we may return to gold, or at what level.

Now and again in the debate on the proposal to create the exchange equalisation fund the voice of financial orthodoxy was heard, but the plan found support in all quarters of the House chiefly on the ground that it would enable the Bank of England to pursue an easy credit policy for the benefit of home industry without having to subordinate its actions to exchange influences. Criticism was directed mainly against the secrecy in which the management of the fund is apparently to be wrapped.

To come to this House (said Mr. Boothby) and ask for a loan of £150,000,000 and to refuse to give any information whatsoever

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about the state of the account of which this loan is to be the basis is asking us to bite off rather more than we can be expected to chew.

Nevertheless, pleading that publicity would be a boon to the speculators whom they sought to confound, the Government insisted on asking, and their majority obediently chewed.

Partly on account of the more than punctual payment of the Bank of England and Treasury credits that were raised in defence of the pound last August, confidence in the British financial position (or at any rate speculative bullishness) so far increased that sterling rose from \$3.40 at the beginning of the year to \$3.82 on March 29. This appreciation, which was due rather to the inflow of short-term funds than to any fundamental change in our balance of overseas trade, caused some perturbation among industrialists and traders, who naturally favour a low rate of exchange. The announcement that an exchange equalisation fund was to be set up was taken by speculators as indicating that the Government had bowed to those influences, and the immediate reaction was a fall in the exchange rate to \$3.62½ on April 26. The future progress of sterling cannot be foreseen. It depends, of course, on the Government's monetary policy and on the effect of import restrictions on the balance of trade, but still more on the development of world economic and political conditions.

V. BYE-ELECTIONS

THERE have been a number of bye-elections recently, all save one of which have left the numerical constitution of the House unchanged, although the enormous Government majorities at the general election have not been repeated. The exception was at Wakefield, where Mr. Greenwood, formerly Minister of Health, changed a Conservative majority of 4,000 into a small majority for

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Labour. The result, which was not surprising in view of the fact that polling took place a couple of days after Mr. Chamberlain's unattractive budget was opened, considerably strengthens the Opposition front bench, on which Mr. Lansbury, Sir Stafford Cripps and Major Attlee have had to shoulder an excessive burden of work. At an earlier bye-election in Dumbartonshire, Mr. Tom Johnston, the former Lord Privy Seal, failed by 3,000 votes to reverse the majority of over 12,000 obtained by a Conservative at the general election. During this bye-election campaign considerable heat was engendered by the impromptu statement of Sir Archibald Sinclair, one of the free-trade Liberal members of the Cabinet, that he would rather vote for the Conservative candidate, who was a protectionist, than for Mr. Johnston, who stood on a free trade platform, because the former was the only candidate pledged to support the Government. In this, according to the *Manchester Guardian*, "he showed a quite inadequate appreciation of the feeling of Liberals, not only in Dumbartonshire but all over the country."

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I. THE SESSION

THE second session of the seventeenth Federal Parliament, which opened on February 6, has now been in progress more than two months, and it has a comparatively meagre record of accomplishment to show for its labours. There had been no material change in the standing of parties since the end of the previous session, as the Government had found compensation for the loss of a seat at East Hamilton in Ontario to Labour by the capture of the Three Rivers-St. Maurice division in Quebec from the Liberals. Moreover, in March they secured another gain at the expense of the Liberals by winning the Athabasca division of Alberta, but the glory of this unexpected triumph was qualified by the fact that it was won in a four-cornered contest in which the victorious Conservative candidate polled only 35 per cent. of the total votes cast ; indeed the most notable feature of this by-election was the exploit of the nominee of an organisation called The Farmers' Equity League, who ran on a frankly communist platform, in polling over 2,500 votes in a purely rural constituency. The Bennett Ministry, therefore, was still in possession of a commanding majority in the House of Commons when the session opened, and thanks to the operations of mortality it had acquired a slight numerical superiority in the Senate. There had also been during the recess a modified reorganisation of the Cabinet, by which the Prime Minister gave up the Department of Finance to Mr. E. N. Rhodes, formerly

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Minister of Fisheries; Mr. Duranleau, Minister of Marine, assumed charge of the Fisheries Department; and Mr. Gordon, the Minister of Immigration, took over the Department of Labour from Senator Robertson after the latter's resignation on account of ill-health.

The Speech from the Throne forecast a very modest programme of legislation, consisting chiefly of Bills designed to improve existing Statutes, and few of these measures were of a controversial character. Consequently, during the first week of the session, a great deal of time was quite unprofitably occupied in academic debates on resolutions sponsored by private members, in which pet panaceas for the country's troubles were unfolded, or special grievances made the theme of protest and lamentation. The Liberals did not develop any sign of the militant and aggressive spirit which their press propagandists had predicted until the Government, early in March, introduced a Bill seeking an extension for two months of its powers under the Unemployment and Farm Relief Act, which had had February 1 fixed as its time limit. To this proposal Mr. Mackenzie King and his followers embarked upon a campaign of resolute opposition; they contended that it was superfluous for the Government, when Parliament was in session, to seek an extension of the arbitrary powers conferred by this Act; that last year the Government, in order to overcome Liberal hostility to its demand for a blank cheque, had deliberately agreed to limit the operation of the Act to February 1, 1932; and that the proper course for the Ministry was to estimate the sums required for unemployment relief and include them in a special vote the passage of which would be immediately facilitated. Liberal orators waxed vehement upon the outrage which was being perpetrated upon the principle of parliamentary control of finance, they discerned in the measure convincing evidence of the Mussolinian proclivities of Mr. Bennett, and they professed to be battling against a sinister scheme for the virtual establishment of a dictatorship. They

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also sought to adduce proof that the administration of the Government's relief programme of public works had been seriously mismanaged and not untainted by graft and scandals. The defence of the Government was that it had used its arbitrary powers with discretion and to the profit of the country, that the charges about mismanagement and scandals were unfounded, and that an emergency situation still existed, demanding a wide latitude of authority for the Cabinet to meet special contingencies. However, the Liberals remained unconvinced by ministerial arguments and adopted tactics of deliberate obstruction, with the result that the Government was compelled to resort twice to the closure, which is very rarely applied at Ottawa, in order to secure the passage of its Bill. But when it became law it had only a month to operate, and since there is no prospect of the unemployment situation undergoing any substantial improvement during the summer, Parliament, as Mr. Bennett has intimated, will have to consider further plans for coping with it before the session ends. Already such plans have been the subject of a conference at Ottawa in which Federal Ministers and representatives of all the nine provincial administrations participated. At this meeting no final decision about future policy was reached, but the Federal Ministers, after making a frank statement about the position of the federal finances, definitely intimated that they could not continue co-operation with the provinces and municipalities in a further programme of special public works for unemployment relief, but had decided to reserve their resources for a direct dole. Experience of the past two years has revealed that special public works are a very expensive method of coping with unemployment; the *Financial Post* of Toronto was responsible for the estimate that for every day's labour thus provided \$10 had been added to the debt of some public authority, and it is notorious that the financial burden entailed by these special public works has strained the credit of several provinces and numerous municipalities.

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almost to breaking point. Commenting on the results of this conference the *Manitoba Free Press* wrote : "According to its decision Canada will definitely fall back on the dole in spite of all that has been said against it," and declared that its adoption was a confession of a complete abandonment of all hope of carrying out the programme which Mr. Bennett had advanced at the last general election.

It is highly doubtful whether the Liberal declarations about the rights of Parliament excited much sympathetic response from the public, which is more interested in the efficacy of the Government's measures than the constitutionality of its methods ; but what the Liberals did accomplish by consuming three weeks of Parliament's time was to upset the schedule of the Government's plans and prevent the production of the budget until after the brief Easter recess. For his maiden budget speech Mr. Rhodes had a very cheerless task, but he courageously followed his predecessor's example in giving a frank and comprehensive outline of the national balance sheet. Shrinking revenues and heavy extraordinary expenditures had left all the forecasted estimates of the previous budget far astray, and with revenues placed at 334½ million dollars, and the aggregate of ordinary, capital and special expenditures at 454½ millions, he had to admit for the fiscal year 1931-32 a deficit of 119½ million dollars. To this the special expenditures had made a large contribution, as the Federal Government's share of the cost of unemployment relief had absorbed 38½ million dollars, and the wheat bonus had taken 11 millions. Moreover Mr. Rhodes had to accentuate the sadness of his budget tale by an admission that the drain of the Canadian National Railway system upon the Federal Treasury during the last fiscal year had reached the grim total of 109 million dollars, of which the operating deficit alone was responsible for some 60 millions, and capital expenditures and other items for the balance. So the sum of the matter was that the aggregate revenues of

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the Federal Government fell short of expenditure by roughly 180 million dollars, and since the gap had had to be bridged by borrowing, there had been an addition of roughly this amount to the national debt. Mr. Rhodes also disclosed in his speech that the Federal Treasury had found it necessary to advance some 22 million dollars to different provincial governments, partly to avert default on obligations maturing in New York and partly to finance their share of the unemployment relief programme. However, he claimed that the Government was entitled to credit for a satisfactory handling of the national finances under very difficult conditions, and that the measures taken to deal with the embarrassing situation created by the depreciation of the Canadian dollar in New York had succeeded in their dual object of enabling Canada to meet her foreign obligations according to the terms of the contracts and of maintaining an ample reservoir of credit for the needs of Canadian business.

For the fiscal year 1932-33, Mr. Rhodes showed that a rigorous application of the pruning hook of economy still left ordinary expenditure at an estimated figure of 369 million dollars, and that, unless there was marked revival in trade, the existing basis of taxation would not yield more than 319 million dollars. So he submitted proposals for new taxation which is estimated to produce an additional 55 million dollars. The main additional imposts take the form of an increase in the personal and corporation income taxes, and a sharp increase of the sales tax from 4 to 6 per cent., while the special excise duty on imports is also raised from 1 to 3 per cent. In addition, a variety of what are styled "nuisance taxes," on cheques, telegrams, cables, sleeping and parlour car tickets, etc., are either imposed or increased. So, if the taxation estimates are realised, the Government will have a surplus of some \$4,300,000 over the needs of ordinary expenditure, but as this surplus will be more than wiped out by capital expenditure, and as the sums required for unemployment relief and the Canadian

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National Railways are just as likely to be larger as smaller than they were in 1931-32, obviously there looms ahead another substantial deficit which will have to be made good by borrowing. In the budget, however, only one minor tariff change was included, and Mr. Rhodes explained that the Government had decided, in view of the approaching Conference, to leave the British preference untouched and that this decision precluded any adjustment of the general tariff.

When the budget debate opened, the Liberal line of attack was immediately developed by Colonel Ralston, who has now become the Opposition's chief financial critic, in a very able and effective speech. His criticism of the financial proposals of the budget was mainly directed against the leniency shown to the richer classes in the readjustment of income tax rates, and against the protectionist aspect of the increase in the excise tax on imports; but he also accused the Government of general mismanagement of the national finances, charging them with lack of courage to impose the heavy taxation required to make good the deficit created by their follies and errors, and to secure a true balance for the budget of 1932-33. He reserved, however, his chief fire for the fiscal policy of the Government, whose excesses in high protectionism were, in his view, largely responsible for the country's financial and other difficulties. Quoting freely from statistics, he argued that not only had the policy of higher tariffs, sponsored by the Bennett Ministry, depressed the position of the great natural industries by producing reprisals from other countries which had found their markets impaired, and maintained an unjust disparity between the prices of manufactured goods and farm products, but it had also signally failed in its avowed main objective, the increase of industrial employment; he pointed out that even in industries like textile manufactures, which had been the chief beneficiaries of tariff largess, employment was substantially less than it was two years ago. With regard

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to imperial trade co-operation, he contrasted the practical zeal of the Liberal party in this sphere, as evidenced by Mr. Dunning's budget of 1930, with the attitude adopted by Mr. Bennett at the last Imperial Conference, and, depicting the Government as obsessed by the doctrines of a selfish economic nationalism, and as disposed to obstruct measures for the stimulation of inter-imperial trade, he alleged that they had missed a great opportunity in their budget when they had failed to include in it substantial concessions for British imports by way of reciprocity for Great Britain's exemption of Canadian goods from the operation of her tariff. He also criticised severely the system of tariff administration now followed at Ottawa, and declared that the practice of changing duties by Orders-in-Council and by arbitrary valuations had made the customs schedules a mere formality and ruined Canada's import trade. At the close of his speech, Colonel Ralston moved an amendment which was in effect a denunciation of the Government's fiscal policy and a demand for its immediate reversal.

The Government's reply to this indictment was entrusted to Mr. Stevens, the Minister of Trade and Commerce, who argued with some justice that Colonel Ralston had made no allowance for the extraordinary difficulties imposed on the Government by general world conditions, and that there was no satisfactory alternative to many of the policies which it had adopted. In a reasoned defence of the budget and the Government's tariff policy, he claimed that the enactment of higher tariffs, so far from decreasing employment, had saved the country from an industrial *débâcle*, and he particularly sought to defend the Government's action in levying special duties to counterbalance the effects of the depreciation of sterling. In a brief reference to the Imperial Conference he asserted that the Government and its officials were working at a variety of problems connected with it, and protested that it was grossly unfair of the Opposition to disseminate the

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idea that the Ministry was obstructive or even indifferent to projects of imperial trade co-operation. For some time past Mr. Stevens has been a zealous protagonist of monetary reform and has even lent his advocacy to the cause of the remonetisation of silver. In his speech he discussed at considerable length the problems involved in the currency question and the debt situation, foreign and domestic; indeed he indicated that he regarded the evolution of some international or imperial plan for raising the price level by monetary organisation as the paramount need of the day, and since earlier in the session he had fortified himself with the authority of a resolution of Parliament that this problem should be raised at the Conference, it is obvious that if he can have his way it will be an important theme in the Conference's deliberations.

During the subsequent debate, the spokesmen of the Progressive party showed that they shared Mr. Stevens's views about the importance of the debt and currency problems, and were disposed to regard the tariff as a minor issue. Mr. Woodsworth, the leader of the Labour group, after a general arraignment of the whole capitalist system, exhorted the Government to mobilise the unemployed as an army of reconstruction which would devote its energies to building roads, clearing slum areas, preparing land for settlement and kindred tasks. The budget debate is not expected to be a prolonged affair, and as the legislative programme is well advanced the way should be open for prorogation by the middle of May, which will leave the Government two clear months for preparation for the Conference. Legislation, split into three Bills, which the Government introduced in the Senate, designed to cure certain vital defects in the existing federal insurance law exposed by a recent decision of the Privy Council, has produced a sharp controversy with the provincial governments of Ontario and Quebec, which contend that the Bennett Ministry is precluded from exercising any jurisdiction over insurance by reason of this decision.

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the terms of the constitution. The session has also witnessed a veritable epidemic of special committees which have been charged with the investigation of such varied subjects as radio-broadcasting policy, the activities of the Civil Service Commission, gasoline prices and, *infandum renovare dolorem*, the position of the three Liberal Senators who were involved in the Beauharnois affair.

At the end of the long parliamentary squabble on the unemployment Bill, the Conservative Ottawa *Journal* was moved to violent protest about the performances of Parliament, and an editorial entitled "The Holy Show of Parliament" began with these words :

Parliament's capacity for folly and futility amounts to a national scandal. In two months it has done little but make a holy show of itself, has exhibited such a pathetic sterility of common sense as to make the average Canadian or any believer in representative government blush in humiliation.

This sweeping condemnation may be too severe, but the general verdict of impartial observers is that the present session has so far been one of the dullest on record. Yet if its proceedings have been characterised by an atmosphere of unreality and futility, there is an underlying cause. The truth is that there are now in process of maturing three greater issues in the country's future : one is the country's trade policy which is involved in the results of the Imperial Economic Conference, a second is the St. Lawrence deep waterway, and a third is the railway problem, and between them they promise to shape the course of Canadian politics in the coming years and to determine the fortunes and fate of parties. Meanwhile the politicians of all parties are simply marking time until these issues emerge in concrete form and plans and policies have been formulated in connection with them.

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II. THE PRAIRIE PROVINCES

THE West is girding itself for the crop year of 1932 with mixed feelings. The relief from the stress of winter and the advent of spring tend almost automatically to induce a spirit of optimism. The West is so much in the hands of nature that at each seed-time it seems as if anything is possible if only nature will be kind. Moreover, after three years of severe drought affecting large sections of the most productive of the wheat lands, it seems as if the law of averages is all in favour of a wet year, and a study of the history of the climatic cycle, carried back nearly two centuries through studies of tree growth, encourages this hope.

Those who are less optimistic point out that actual conditions at the moment are not uniformly good. In the northern part of the provinces there was a heavy rainfall in the autumn and snow during the winter, with the result that there is not only abundant surface moisture but also the much desired subsoil moisture. In the dry areas of last year, which roughly cover the south-east corner of Alberta, the southern half of Saskatchewan and the southwest corner of Manitoba, there has been sufficient rain and snow to make a good seed bed and to germinate the seed, and conditions in this respect are much better than a year ago, when the ground was so dry that even during the winter there were severe dust storms, but there has not been sufficient moisture to penetrate the soil very deeply or to act as a reserve for the crop in the event of inadequate rains later on. Hence in this large and important region the "June rains" will be awaited with even more than the usual anxiety.

While then the tendency to spring optimism is general, there are inevitably local differences of feeling in so large an area. It is, for instance, natural that the feeling should,

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broadly speaking, be better in the north. In the first place, the drought has been largely confined to the south. Then in the north there is far more mixed farming, less dependence on wheat and more capacity on the part of the farmers to live off their own land. Even within this more favoured area, however, there are differences. In Manitoba years of careless farming have allowed a devastating influx of weeds to grow up in many districts. This has reduced agriculture in districts which were formerly prosperous to a very low state. Definite efforts are now being made to combat this decline by public and private agencies but, notwithstanding this, the situation is at present far from satisfactory. Manitoba has also, to a greater extent than either of the other provinces, an unemployment problem in and around Winnipeg, which now contains a substantial manufacturing population, and Mr. Dafoe, the editor of the *Manitoba Free Press*, is demanding that plans should be made to deal with the situation, which up to the present has been handled in rather a haphazard way. But although Saskatchewan has no problem of urban unemployment to compare with that of Manitoba, her own relief problem, taken as a whole, is much more serious. The fact that the immensely fertile Regina plain, the most thickly settled part of the whole province, has been affected by drought for three years in succession has created a most serious state of things. This particular district, with its fine farmhouses and buildings quite like those of the flourishing farming communities in eastern Canada, is ordinarily, perhaps, the most prosperous in the whole West; but three years of bad crops, culminating in the total failure of last year, have produced an unprecedented situation. One is told that in Saskatchewan last winter, out of a total population of 900,000 there were 300,000 people receiving relief. This doubtless includes everyone who has received anything of any kind, food, clothes, fuel, seed grain, fodder, etc., but it indicates what a problem the people of Saskatchewan

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have to deal with. They comfort themselves with the reflection that this southern area, which has suffered most acutely, is so extremely fertile that in one good year, as it has often demonstrated in the past, it can make up for several bad seasons, and meanwhile they are making heroic efforts to cut their coat according to their cloth in the matter of expenditure. Recently, in order to market an issue of bonds, they had to satisfy the bond-houses that they would balance, or substantially balance, their budget during the current year. Considering that the value of their 1931 crop was one-fifth of the value of the 1928 one, this shows the courageous way in which they are grappling with their difficulties. Incidentally they have introduced an income tax with the exemption reduced to \$750, which is lower than the exemption from the Dominion income tax, and they have fixed a minimum amount to be paid by anyone whose income exceeds the exempted amount, even if the tax rate when applied to the taxable part of the income would not yield the prescribed minimum.

In Alberta conditions are better than in either of the other provinces, though here too the southern part of the province has suffered greatly from drought. Northern Alberta, having largely escaped, and being the finest wheat raising area in the province, is perhaps the best place in which to study the effect of low prices by itself, as distinct from that of low prices and drought combined. In spite of the devastating drop in price, farmers who are not overburdened with debt, as a result either of spending too much on the purchase of land or of other extravagances during the good years, are still able to carry on. This is of course particularly true in cases where they have not confined themselves to wheat. Loan companies find that, even at present prices, in these favoured districts in northern Alberta borrowers can usually pay interest on their indebtedness and in exceptional cases are reducing the principal as well. There is certainly among these northern Alberta farmers a somewhat more hopeful feeling

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about their ultimate ability to meet their indebtedness than there was a year ago. This is due mainly to two things : First of all, they have now survived another year of low prices and find that they are still carrying on, and, second, they have reduced the cost of growing wheat to what they would have formerly considered an inconceivably low amount. The result is that, whereas a year ago they were apt to regard their debts as a burden which was altogether unbearable, one which it was hardly worth while even to calculate, to-day they are more inclined to believe that, given patience on the part of the creditor and a reasonable improvement in conditions, they can work their way out.

As this problem of farm debts has steadily grown more important in the West, a few figures may be of interest. As a result of investigations in twenty average Saskatchewan municipalities it was ascertained that roughly 50 per cent. of the land was mortgaged and 50 per cent. of it clear of mortgages. Following a different line of inquiry, confined almost exclusively to mortgaged farms, *Farm Outlook*, a publication sponsored by the Department of Farm Management in the University of Saskatchewan, reports as follows. During the years 1930 and 1931 credit statements were secured from some 650 farmers. Summaries of the data indicate that, out of 497 farms which supplied adequate financial information, 89 per cent. were worked by owners or part owners and 11 per cent. by tenants. Of the 441 owners or part owners, 8 per cent. were reported to be free from debt and the remaining 92 per cent. as having debts averaging \$4,782 per farm. The existence of debts secured by mortgages on real estate and of unpaid accounts due under agreements for the purchase of property was reported in the case of 81 per cent. of the 441 owners, and entailed a sum of \$4,341 owing for each farm with this class of debt. This amount is of course included in the \$4,782 average mentioned above. Estimates of the farm capital of owners visited by representatives of the department at

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the time show that the average debt was equal to about 27.8 per cent. of the whole of the farm capital of the debtor. But although recent droughts and low prices have, as already mentioned, made this burden appear in many cases intolerable, the fact remains that with one or two favourable years, and with prudent administration of their resources on the part of the farmers, the whole debt situation would be amazingly improved.

Reference has been made to the reduction of the cost of growing wheat. It is dangerous to give figures, but this at least can safely be said. Although three years ago farmers would have thought that a price of a dollar a bushel for wheat meant the end of the world, and although even a year ago they felt that a dollar was probably the irreducible minimum, to-day the feeling is that 75 cent. wheat would enable them to carry on reasonably well. It will thus be seen that we are getting down to a cost of production which should enable us to reap a great advantage from any substantial improvement in the price.

It is interesting to visit these provinces at the present moment. The provincial governments are struggling manfully to solve the problem of balancing their budgets. They have made drastic cuts in expenditure and are looking in every direction for new sources of income. Corporations are naturally regarded as one great source of supply, and in particular banks, insurance, loan and trust companies are all being asked to contribute substantial additional amounts in the way of taxes. As nearly all these corporations have their head offices in the East, there has been quite a migration westward of head office officials to remind the provincial governments that any further difficulties put in the way of financial institutions and the security of investments may react to the disadvantage of their provinces by drying up the sources of money for loans, whether on land, crops, live stock, or other things. Having regard to the difficulties of the western governments and to the pressure that is being put upon them by some of the more

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extreme of their own followers, their attitude has been characterised by much good sense and a real desire to be fair. They have undoubtedly been forced to impose certain taxes which contravene sound principles of taxation—notably in cases where gross income has been taxed and no allowance made for losses—but in those cases the legislation has usually been temporary and specifically stated to be only for the purpose of meeting emergencies.

It is natural that, confronted with such a striking deterioration in his position, the farmer should grasp at the various panaceas that offer quicker relief from his difficulties than he can expect to get from the working out of economic laws. Debt revision has been much in the air. It is interesting to note that, although Alberta has suffered less than either of the other provinces, the demand for relief there has been perhaps more insistent than anywhere else. One is inclined to attribute this to the fact that there is a much larger percentage of foreigners there, who are apt to be in too much of a hurry, and to seek short cuts to their ends. It is a strong point in the situation of southern Saskatchewan, the district most seriously affected by drought, that the farmers are mainly of Anglo-Saxon origin, sound and well-balanced even in their troubles. The result of this was evident at a recent sitting of the Debt Adjustment Committee of the Saskatchewan Legislature. In spite of their present troubles the farmers showed a spirit of moderation and an appreciation of the economic implications of any compulsory adjustment of debt. The following paragraphs give the view of the *Manitoba Free Press* on the subject :—

The debt adjustment must be on a voluntary basis. Compulsory adjustment is out of the question. Apart from regard for the sanctity of contracts, the credit both of the farming population and of the province would certainly suffer if partial repudiation were adopted in the form of compulsory scaling down of debts. It would do Manitoba no good if it were known that compulsory adjustment was even seriously considered. At this particular time, with the provincial government about to float a \$5,000,000 loan,

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it would be the height of folly to damage the reputation and credit of Manitoba by deciding upon such a policy, involving a measure of repudiation. Since a Conservative member of the Legislature has declared in favour of compulsory adjustment of debts, it might be well for the Conservative party to make it clear that it is not in favour of such a course.

It should be possible to meet the situation by the extension of the powers of the present Debt Adjustment Board. In the first place, the principle of the Industrial Disputes Conciliation Act might be adopted and all foreclosures prevented until the cases were dealt with by the Adjustment Board. With the claims of the creditors and the whole position of the farmer placed before the Board, it should be possible to reach a voluntary agreement which would ensure the creditors as much as they could get in any case, and leave the farmer with a loan that he could carry.

Meanwhile adjustments as between individual debtors and individual creditors are, of course, constantly going on, although at the moment the cases in which there has been any actual revision of liabilities, as distinct from an extension of time, are only a small percentage of the whole number, probably substantially less than 10 per cent. The basis of such adjustments is the capacity of each individual debtor to pay, rather than any general scaling down of the debts of a class. A different line has been taken by the Massey-Harris Company, the great Canadian manufacturer of agricultural implements, which made the following announcement on April 14 :—

For weeks past, the officers and directors of Massey-Harris Company have been giving continuous thought to working out a policy which would be of help to the farmers of Canada who will shortly be busy preparing for a new season's operations. Owing to the unprecedented fall in the prices of agricultural products, the purchasing power of the farmer has been lessened to such a degree as to reduce farm implement purchases to the lowest point in years.

Our factories are practically idle and workmen who have been faithful and loyal employés for years have but little immediate prospect for employment and livelihood.

The information we have received in the last few days indicates that over practically the whole of Canada the prospects for favourable seeding conditions are more promising than for several years. On the other hand, there are many farmers who are finding the

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greatest difficulty in providing themselves with the very machinery necessary for carrying on their operations on an economic basis.

With a view to helping this situation for the farmer, with a view to increasing employment for our men, and with a hope that the increased operations that may result will afford some compensation to the company for the loss it will sustain, we have decided to announce important changes with regard to prices and collection of accounts, effective forthwith. These changes are as follows:—

On all new purchases of implements, whether bought for cash or on time, a 10 per cent. discount will be allowed, to the extent to which payments are made prior to November 30, 1932.

On all existing obligations of the farmer to the company, whether past due, current, or future, a discount of 10 per cent. will be allowed, both on principal and interest, to the extent of the payments made on such indebtedness prior to November 30, 1932.

This discount of 10 per cent. is special for the present year and applies only to Canada. It is not based upon reductions in cost of production, because as yet there has been no reduction. It reflects a desire in the present emergency to be of service to our customer, the farmer, with whose success our own is so closely linked.

It is hoped that coming at this time, the offer may enable many farmers to secure equipment which they much need, and to assist and encourage them in the liquidation of their present indebtedness. If it accomplishes this, even in a small measure, we shall all feel that it has been well worth while.

Formal announcement by the company, giving the particulars in more detail, will be issued to-morrow.

This offer of the Massey-Harris Company follows upon the offer of the Canadian Pacific Railway some time ago to reduce payments on land contracts.

The prairie provinces are naturally intensely interested in the approaching Ottawa Conference. Having regard to the action of the present Government up to date, they are fearful lest the interests of the primary producer in Canada should be sacrificed to the interests of the manufacturer. The record of their own members in the House of Commons at Ottawa, though their numbers in the Conservative party should be sufficient to make their voice tell, is not such as to make their constituents in the West feel that they can be relied upon to make a definite

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stand for what would ordinarily be regarded west of the Great Lakes as the interests of the West. Thoughtful people feel that it is almost too much to expect the Eastern manufacturer to accept the view that an increase in the prices of basic commodities produced in Canada, which would improve his position more quickly and more effectively than anything else, would tend to follow the sale in Canada of larger quantities of British and foreign manufactures through the increased purchasing power that such sales would bring to the countries making them. The Canadian manufacturer may admit the theoretical force of this argument, but, with much of the foreign trade that he had three years ago gone, the instinct of self-preservation prompts him to cling closer than ever to the home market. The Western farmer has, of course, argued for many years that the prosperity of Canada depends on a more liberal admission of foreign manufactures, and he naturally feels that his argument, which in good times was not conclusive inasmuch as the producer of raw materials was getting along fairly well in spite of tariffs, has now been proved to be sound beyond all dispute. It will make a considerable difference if the farmers are able to make their views effective at Ottawa in July.

Meanwhile spring is here and, as already stated, the possibilities of spring in the West seem almost illimitable. There is already in anticipation a certain incipient quickening in the air of the Western cities. At Winnipeg the makers of harness and workmen's overalls are working as they have not done for a long time past. The great department stores note some improvement. Here and there a business is picking up. The owner of a number of lumber yards in different parts of Alberta reports that things are better. A country hardware shop shows improved results due to trading now on a cash basis only. If this proves to be nature's generous year and the three provinces have a large crop, the result would be felt right through the East as well as the West. The railways

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would at once become busy—they would benefit from the wheat haulage whatever the price of wheat. Manufacturers in the East would immediately feel the effect of the increased consuming power of the West. Even if there should be no improvement in prices, a good crop should practically sweep away unemployment in the West and to a considerable extent in the East also. But if there were, in addition, to be a moderate improvement in the price, say, from 65 to 75 cents or even more, the consequences throughout all Canada might be electric.

Canada.

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MINISTERS who return to office after a period spent in opposition are very much in the position of a family coming back, after having had tenants in the house for a year or two, to find that the furniture has been put in impossible places, that the garden has been stocked with quite unwanted species, and perhaps that (as with the "United Australia" family) the hedges, left uncut, have grown rank and uneven. The time is ripe for quick decisions and important changes; everything clamours for immediate attention, and all is bustle and excitement. The whole family is impatient to have the house in order and to be "settled in." It is in this kind of strenuous activity that the Lyons Ministry at Canberra has spent its first three months. The Government has "got into its stride" very quickly, much more quickly than has been customary of late years. It met the new Parliament in the middle of February, with the main lines of ministerial policy already laid down, and at once brought in two measures which are likely to prove historic—the first downward revision of the tariff in the history of the Commonwealth and a Bill to coerce the defaulting State of New South Wales, which is quite without precedent in British countries.

I. NEW SOUTH WALES VERSUS THE COMMONWEALTH

FROM the very start, Mr. Lang has been an unwilling participant in the system of unified loan arrangements which was established by the financial agreement of 1927.* There was full co-operation during Mr. Bavin's Premiership (1927-1930), but when Mr. Lang again became Premier it was not long before he found himself completely at variance with the other members of the Loan Council on matters of financial policy. He propounded in Feb-

* See *THE ROUND TABLE*, No. 69, December 1927, pp. 181-190, especially pp. 183-4.

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ruary, 1931, his own scheme for meeting the financial embarrassments of the country.

The first proposal (he said) was that Australia should pay no more interest overseas until the British financial interests fund the Australian debt on the same terms as America funded the British debt . . . The second proposal was a reduction of the whole (internal) interest burden being borne by Australia, both in governmental and private finance.

These proposals were rejected by all the other Australian Governments ; in Mr. Lang's own words, " they were rejected unanimously and emphatically, without argument and with horror." The New South Wales Legislative Council refused to pass a reduction of interest Bill, designed to give effect to the second of these proposals by fixing a maximum rate of interest in New South Wales of 3 per cent. In the same month (March, 1931) Mr. Lang failed to provide the Commonwealth with the moneys required to meet the interest on certain loans in London and New York. By thus defaulting on his obligations under the financial agreement, he put the former of his proposals into actual operation. The Commonwealth Government resolved that it could not allow the financial credit of the whole country to suffer for the policy of one State, and itself provided funds abroad to make the interest payments. This action was cordially endorsed throughout Australia, and was clearly in accord with the spirit of the financial agreement. The great advantage claimed for that agreement was that the overseas lender would be able to look to the honour and credit of the whole Australian people, and need not be apprehensive of a weak State or an irresponsible Government. So far, therefore, as New South Wales was concerned, a definite attempt had been made to put the "Lang Plan" into operation. Thanks, however, to the Scullin Government and the courts (which saved the Legislative Council from destruction), the only material result of the attempt was to transfer the burden of certain interest payments to the Commonwealth as a whole ; which meant that, unless New South Wales could be made to pay, the whole of the rest of the Commonwealth would

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be subsidising the defaulter. The Commonwealth instituted proceedings in the High Court to recover the moneys it had paid. The issue between Commonwealth and State appeared to be squarely joined.

In June, 1931, however, the situation was altered by the adoption of the Premiers' Plan.* Reluctantly, in order to get money for current expenses, Mr. Lang agreed, along with the others, to reduce the adjustable expenditure of his government by 20 per cent. and to restrict his budget deficit to an agreed figure, in consideration of the conversion of internal governmental debts at a reduction of 22½ per cent. in the interest payable. The interest reduction was not as great as he himself wished, nor did it cover as wide a range, but it was at least in the right direction, and he claimed it as an instalment of the "Lang Plan." Shortly afterwards, he admitted liability for the four and a half millions which the Commonwealth had paid overseas in interest on behalf of New South Wales, and undertook to meet all future liabilities of the State as they fell due. If not harmony, at least co-operation, seemed to be restored. Co-operation, however, proved to be both uneasy and shortlived.

At the end of January, 1932, the Australian Loan Council and a Premiers' Conference met, now, of course, under the chairmanship of the new Prime Minister and Treasurer, Mr. Lyons. The primary business was to review the extent to which the several governments were keeping within the financial limits agreed upon in June last. The figures submitted were disquieting, for they showed that the estimated deficit for the seven governments as a whole, for the year ending June 30, 1932, was almost 50 per cent. greater than had been contemplated under the Premiers' Plan, in spite of the fact that everywhere, except in New South Wales, adjustable expenditure had been reduced by at least the covenanted 20 per cent. Only Victoria was able to show an estimate that was actually within the limit allowed; the Commonwealth and South Australia expected

* See *The Round Table*, No. 84, September 1931, p. 888 *et seq.*

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to keep their deficits down to their respective limits; the other four States all showed increases of varying magnitudes—increases of 60 per cent. in New South Wales and in Western Australia, of 200 per cent. in Queensland, and of 180 per cent. in Tasmania. The position may, perhaps, be seen best in tabular form.

(A.) DEFICITS AS COMPARED WITH PREMIERS' PLAN.

Government.	Plan Deficit. £	January Estimate. £	Percentage Variation.
Commonwealth ..	.. 1,150,000	1,150,000	—
New South Wales ..	.. 5,910,000	9,370,000	plus 60
Victoria ..	.. 1,610,000	1,550,000	minus 4
Queensland ..	.. 760,000	2,320,000	plus 200
South Australia ..	.. 1,500,000	1,500,000	—
Western Australia ..	.. 1,200,000	1,920,000	plus 60
Tasmania ..	.. 90,000	250,000	plus 180
Totals ..	.. 12,220,000	18,060,000	plus 50

(B.) PERCENTAGE REDUCTIONS IN EXPENDITURE.

Commonwealth ..	.. 21	South Australia ..	.. 29
New South Wales ..	.. 15	Western Australia ..	.. 27
Victoria ..	.. 28	Tasmania ..	.. 20
Queensland ..	.. 21		

In the face of figures like these the talk of reductions in taxation with which the meetings of the Loan Council had been heralded came abruptly to an end. The budget figures showed that even the work of checking the drift has not yet been fully accomplished, and illustrated the value of the periodical review provided for by the Loan Council. There had been a certain, and very natural, tendency to regard the Premiers' Plan as having placed the budgets of the Australian governments in a sound and satisfactory position. The review of the first half of the year showed that they still needed further care and effort. It was clear that some States would have to call on the Commonwealth Bank for further accommodation irrespective of their loan requirements for the remainder of the year. Queensland was in the fortunate position of having a cash

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reserve upon which to draw. In the case of Western Australia and Tasmania it was agreed that, inasmuch as they had complied with the Premiers' Plan so far as concerned reduction of expenditure, the Loan Council should request the Commonwealth Bank to make additional advances representing half the amounts by which their deficits would exceed the deficits provided for in the Plan. The governments had in return to undertake to find—either by increased taxation or by additional economies—the other half of the estimated increase. The whole position showed clearly the difficulty of obtaining budgetary equilibrium in Australia under present world conditions. Taxation had been increased on all sides but revenue was falling, and any possibility there may have been of securing a reduction of the overseas interest bill had been rendered far more remote by the filibustering policy of Mr. Lang.

Our primary concern, however, is with the relations of New South Wales to the rest of Australia. Mr. Lang's budgetary position has already been referred to. The figures prepared for the Loan Council showed that New South Wales alone had failed to reduce expenditure by the amount agreed upon last June and that the estimated deficit was 60 per cent. greater than even the huge amount provided for in the Premiers' Plan. Mr. Lang had already had additional advances, and the disgruntled treasurers learned with apprehension on January 29 that he would be unable to meet in full overseas interest payments falling due in London and New York between February 1 and February 4, amounting to some £958,000. He had, he explained, £458,000 in hand, and he asked the Loan Council's sanction for a request to the Commonwealth Bank for an additional advance to cover the remaining £500,000.

The answer was a unanimous, and not unnatural, "No." Mr. Lang, it was explained, "had made no serious attempt to honour his obligations under the Premiers' Plan." The Commonwealth Government announced that it would,

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therefore, refuse to support the giving of any further advances to New South Wales. This refusal was on a Friday. The next question then was what should be done if, on the Monday, Mr. Lang did actually default again. After anxious consultation, the Commonwealth Government resolved not to follow the course taken by Mr. Scullin under similar circumstances in 1931, but to stand on its strict legal position under the financial agreement and to throw upon Mr. Lang, in the face of Australia and the world, the responsibility for a definite act of default in meeting overseas obligations. On the Saturday, Mr. Lyons accordingly announced (with the rather hesitant approval of the Loan Council) that :—

In the event of a default by New South Wales on Monday, bondholders will have to wait for interest payments until legal action is taken or money is made available by New South Wales. No payment to cover liability will be made on Monday by the Commonwealth.

The Commonwealth, he said, regarded itself as a trustee for the bondholders and would take immediate steps to recover the moneys due from New South Wales.

This announcement was regarded in some quarters as a repudiation of all responsibility by the Commonwealth, and the Government's action was subjected to a good deal of criticism. It has since been explained, however, that the Government at no time intended to postpone the payment for any considerable period, but appeared to think that it would be in a better position to take action against New South Wales if default by that State had actually occurred. On the day following the actual default, the Government explained its position more fully, expressly intimating that in the ultimate resort the Commonwealth would be responsible for the payment of the interest in respect of which New South Wales had defaulted, and announcing that immediate steps would be taken to recover the amount involved. A week later the Commonwealth announced that it had been able to make arrangements to pay the amount due at once.

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The Commonwealth Government took, and appears to have been justified in taking, the view that the financial agreement did not make it directly liable to the bondholders in respect of pre-agreement loans; for, although the Commonwealth had assumed liability *as between the Commonwealth and the States*, this did not amount to a substitution of the Commonwealth as the actual debtor. The bondholders' only action lay against the defaulting State. The financial agreement was not in fact drawn up in contemplation of default by any of the parties. Legally unassailable though this position was, it was certainly out of accord with the whole spirit and purpose of the financial agreement. The great advantage of the agreement was, as has already been said, that the overseas lender would be able to look to the credit of the Commonwealth rather than to that of any particular State. The danger of the course proposed by the Commonwealth was obviously that the credit of the whole country might sink to the level of that of the weakest and most irresponsible State. The Commonwealth fully recognised this, and when Parliament met a fortnight later, Mr. Lyons brought in a measure "to resolve doubts which have arisen as to the liability of the Commonwealth to bondholders in certain debts of the States taken over by the Commonwealth." Under the terms of this Act the Commonwealth has now assumed direct liability to the bondholders. But the Government had felt that the interests of Australian credit itself required it to take some drastic step such as the one it had taken. To begin with, New South Wales has other and heavier interest payments to make in the next few months, and the Commonwealth felt that so long as it was prepared to shoulder automatically the responsibilities of the Government of New South Wales, Mr. Lang would simply go on defaulting. That would produce a serious enough financial position for the Commonwealth Government. It also threatened the stability of the whole federal structure. The other States would soon find intolerable a relation

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which bound them all to suffer for the refusal of New South Wales to honour its obligations.

The problem remained of dealing with the defaulter. Hopes began again to centre upon the possibility that the Governor of New South Wales would regard this fresh default as warranting him in dismissing Mr. Lang and dissolving the Parliament. Sir Harrison Moore suggested that the Governor's reserve power of dismissal might properly be exercised when it became clear that the policy of a Ministry was contrary to the will of the electorate ; that the federal elections in December had demonstrated conclusively that the electorate of New South Wales disapproved of Mr. Lang's policy ; and that the inter-dependence of the units in a federal community afforded an additional reason for exercising this power, since the unwisdom of one government might (as in this case) impose hardship, and even ruin, upon all the rest as well. Sir Philip Game, however, made no move. The risks involved in intervention by the Governor in a self-governing colony are necessarily both great and incalculable, as more than one of His Majesty's representatives has found in recent years. If the fallen Premier, by denouncing the "imported" Governor as unconstitutional and undemocratic (and in this particular case by raising the cry of " bond-holders or babies ") could rally sufficient popular support to obtain a majority, the situation would be worse than ever.

The next step, therefore, was to devise some effective means of making New South Wales pay. There seemed to be no certainty that Mr. Lang would satisfy even a judgment of the High Court for the amount due, and recourse was, therefore, had to the powers of the Commonwealth Parliament under Section 105A of the constitution, to "make laws for the carrying out (of the financial agreement) by the parties thereto." The result was the Financial Agreement Enforcement Act, 1932—a unique piece of legislation. Ordinary judicial methods of enforcement being regarded as inadequate, the object of the Act is to

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enable the Commonwealth to intercept any specified revenues of the defaulting State. The procedure is simple. In case of default the Commonwealth Auditor-General may be required to give a certificate showing what moneys are due from the defaulting State, and thereupon the Attorney-General is authorised to apply to the High Court for a declaration that the amounts set out in the Auditor-General's certificate are due and payable and unpaid by the State to the Commonwealth. The Act goes on to vest remarkable powers in the Commonwealth Parliament. Since there is, in the present state of the law, no adequate means of enforcing a judgment against a State, it is enacted that the two Houses of Parliament may resolve to apply to the defaulting State, in respect of revenues specified in the resolutions, the special procedure for enforcement provided by the Act. Thereupon the specified revenue of the State is to become payable not to the State authorities, but to the Commonwealth Treasurer as from a date to be fixed by Commonwealth proclamation, and during the currency of such proclamation. It is further provided that the Commonwealth may sue for and recover amounts which would normally have been paid to the State by tax-payers—thus protecting the Commonwealth against refusal to pay taxes; that payment to the State shall not operate as a discharge, whereas payment to the Commonwealth shall so operate; and that it shall be a criminal offence, punishable by fine or imprisonment or both, for the tax-payer to make, or for any State Minister or officer to receive or permit, payments in contravention of the Act. But even this is not all; the application to the High Court for a declaration may be postponed if the Houses are of opinion that by reason of urgency the special procedure should be applied at once. Under such circumstances the Houses may resolve to apply the Act immediately upon receipt of the Auditor-General's certificate. In addition to these powers, the Act authorises the Commonwealth to retain moneys payable to the defaulting State under the financial

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agreement, and to demand payment to the Commonwealth of any moneys held by banks on behalf of the defaulting State.

The Commonwealth acted by way of the emergency procedure, and immediately on receipt of the Auditor-General's certificate the Houses passed a resolution applying the Act to New South Wales, in respect of revenue not only from what might be called luxury taxes (as on racing and betting and entertainments) but from motor and income taxation as well. The advantage of adopting this procedure is, of course, that if it should become necessary to protect the interests of the Commonwealth before a decision of the High Court could be given, the Commonwealth could issue the proclamation without delay. Otherwise it would be politic to wait for a determination by the Court. Mr. Lang applied to the High Court for a declaration that the Act is invalid, and pending the judgment the Commonwealth did not issue the proclamation to put the "garnishee" procedure into operation. The High Court has now, by a majority of four justices to two, upheld the validity of the Act. Meantime Mr. Lang has repeatedly declared that his Government will take any and every step to defeat the Commonwealth. He has taken the precaution of withdrawing in cash from the Sydney banks the balances standing to the credit of his Government. He has threatened also that if the commercial classes in New South Wales, the supporters of Mr. Lyons' Government, insist that these moneys shall be paid to bondholders overseas, he will impose special taxes by means of which it may be done; but that he will not allow the burden to fall upon "the people" of New South Wales.

It is clear that not only federalism, but constitutional government itself is come now to a decisive test in Australia, and there are many misgivings as to the outcome. The issues between the Commonwealth and New South Wales are not merely legal and financial, but political and social as well, and it is by no means certain that action which will

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resolve one issue will resolve the others too. The issues involved have not in fact been kept at all clear in the public discussions so far. It is perhaps inevitable that, under a federal constitution, political thought should take a legal, and almost a forensic, direction. But unless care is exercised, this necessity for considering always the legal basis of political action tends to concentrate undue attention on the constitutional power to take a course of action contemplated, and to relegate to second place consideration of its substantial merits and its political wisdom. The discussion of the Financial Agreement Enforcement Act has been a clear case in point. Much doubt was expressed whether the measure was really within the legislative power of the Commonwealth Parliament, but, once convinced that the measure was constitutionally valid, supporters of the Government were very commonly disposed to assume it to be desirable, whatever its consequences, unless some other effective "short cut" could be suggested.

A great deal of the discussion of the Act proceeded on the assumption that it is an Act to make "Mr. Lang" pay; that it is an act of protection against "a political outlaw." This kind of personification is a very common thing in politics, both domestic and external, but it is very dangerous. The Act is in fact an Act to ensure that the service of overseas loans will be a first charge upon the revenues drawn from the taxpayers of New South Wales. This is, of course, contrary to the policy of the Government of the State, and much of the support of the Act has been based on the view that the New South Wales Government has ceased to command the support of a majority in the electorate, and that eventually it will be decisively rejected at the polls. Obviously, however, this expectation would be considerably weakened if from any cause Mr. Lang is able to rally fresh support during the life of the present Parliament. This is what makes so hazardous a venture the policy represented by the Financial Agreement Enforcement Act. Default indeed must be restrained, and the federal bond would

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scarcely withstand very long the kind of attacks that Mr. Lang has lately made upon it. Nevertheless, State feeling is still very strong in Australia, and even assuming that the State taxpayer, conscious of his Commonwealth citizenship, obeys without question or resentment the law of the Commonwealth, the very nature of the enforcement proceedings can scarcely fail to strengthen the position of the State Government. The Tasmanian Parliament and Government have, indeed, already protested against the position in which the Act places a State, and Tasmania and Victoria intervened along with New South Wales in challenging the validity of the Act. Yet it is not to be supposed that either Government has the slightest sympathy with the methods of Mr. Lang.

It is therefore possible that a State Government determined to resist, as the New South Wales Government now seems to be, may not only gain a good deal of popular sympathy on the constitutional issue but may actually make the enforcement of the Act difficult. In the long run, it is upon State taxation officers that the Commonwealth must rely, and it is upon State police that the enforcement of all Commonwealth law depends. The Commonwealth has now, by proclamation, put the Act into operation with respect to income tax, and the whole country awaits the result, not without anxiety.

II. IMPERIAL PREFERENCE

AT the Ottawa Conference in July, Australia is to be represented by the Assistant-Treasurer, Mr. Bruce, and the Minister for Trade and Customs, Mr. Gullett. Considerable public interest is being shown in the Conference, and hopes are being expressed that it will inaugurate a new era of prosperity by placing imperial trade relations on a new footing. Hitherto, trade preference between Australia and Great Britain has been one-sided because a consistent free trade policy does not easily admit of preference. But this one-sided character has been more apparent

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than real, for Great Britain was able to make some concessions despite her traditional policy, and Australia stood firmly for protection first and preference afterwards. Now, however, that Great Britain has abandoned free trade for protection it seems that a policy of mutual concessions may be further developed. In Australia, ever since preferences were granted, we have been accustomed to take up the attitude that our generous gifts have been spurned by Great Britain, and the door "banged, bolted and barred" against us. But the fact is that our gifts were chosen with an eye primarily to our own welfare and only secondarily to that of the Empire. It cannot be too strongly emphasised that protectionist sentiment in Australia demands and secures that Australian industries shall be protected against all rivals, and the greatest rival of the Australian manufacturer is the British manufacturer. Our trade policy of protection and preference has been designed, first to protect Australian industries, and then to give preference to the British producer over the foreign producer. These facts serve to explain the indifference or hostility in Australia to the policy of Empire Free Trade. Before the Australian public could welcome Empire Free Trade in the literal meaning of the term it would need to suffer a change of heart similar to the nineteenth century conversion of British manufacturers to free trade, and this it is idle to expect.

Frequent attempts, none of them satisfactory, have been made to calculate the value of the preference granted by Australia to Great Britain by estimating the amount of duty which, but for the preference, would have been paid on British goods imported into Australia. The real advantage, however, afforded to the British manufacturer by preference occurs when his goods have to compete with similar goods of foreign manufacturers subject to a higher duty. The reduced duty obviously offers an inducement to the Australian consumer to purchase British goods in preference to foreign goods. Where the market is largely in the hands

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of the British manufacturer, so that the Australian consumer in any case would use British goods, the preference is not of much advantage to the British manufacturer, although it is to the Australian consumer. Tariff changes since 1929 have materially reduced the advantage which preference gives. The increased duties and the prohibitions placed upon certain imports by the late Scullin Government, whatever may have been their effect upon the trade balance, have made it impossible for many British goods to enter Australia. In these circumstances it is cold comfort to the British manufacturer that foreign goods also have been excluded.

It seems clear that, if genuine concessions are to be made by Australia at Ottawa in return for equally genuine concessions from Great Britain, the present Australian tariff will have to be revised. Great Britain has retreated from free trade and, if Australia retreats from high protection, they may meet on the common ground of a reciprocal trade policy.

Recent political events in Australia furnish an excellent example of the difficulty of tariff reduction. Even before the present depression was in full swing not a few doubts were expressed in responsible quarters as to the dangers of extreme protection. As the depression deepened so the dissatisfaction grew. So much has been said of the necessity of reducing costs of production that it is easy to understand that tariff costs did not escape criticism. It cannot be said that there is any considerable free trade movement, but public opinion, hitherto complacent, is much more critical of the tariff, especially since the changes made by the Scullin Government. The familiar argument that tariffs reduce unemployment wears, in the light of hard economic fact, rather a jaded look, and even the public is recognising that infant industries rarely grow up.

Both the Country party and the United Australia party went to the recent elections pledged to the downward revision of the tariff. Neither party supports free trade,

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but tariff reform is coming to mean, for the first time in this generation, tariff reduction. The Country party made it a condition of joining a composite Ministry that the customs portfolio should be allotted to their leader. This was refused, but the request shows how important they considered the subject of tariff revision. Their attitude is noteworthy in view of the present position of the parties in the House of Representatives, where the Lyons Government commands the direct support of only 37 members (including the Speaker) in a house of 75. But, since the 14 members of the Federal Labour party are pledged to the maintenance of high protection, an alliance to force tariff reduction upon the Government is out of the question.

In the Governor-General's speech the Ministry indicated that changes in the tariff would be made with caution, that recommendations from the Tariff Board—practically ignored by the Scullin Government—would receive close attention, and that the surcharges and prohibitions would be reviewed at once. A week later, in accordance with this promise, Mr. Gullett introduced into the House of Representatives a new tariff schedule, and further expounded the policy of the Government. Under this schedule 69 items were reduced, 11 increased, 43 out of 78 prohibitions were revoked and 19 special duties repealed. The aim of the Government, according to its spokesman, was to reduce costs of production, and particularly to bridge over the difference between the price of what the Australian farmer buys in a protected market and what he sells at world prices. The Government believes that costs could be reduced by removing excessive duties either on manufactures or on primary products, and in carrying out this policy proposes to be guided by the recommendations of the Tariff Board.

The reception given to these proposals illustrates the extraordinary difficulties of tariff adjustment. A storm has arisen over amendments to the tobacco schedule,

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following mainly the advice of the Tariff Board. Truly enormous duties had encouraged growers in several States so that the production of Australian tobacco was trebled. The reduction still gave the local grower a duty of 400 per cent. over imported leaf, but farmers' representatives regard duties on primary products as some compensation for the subsidy to manufactures involved in other duties, and the Leader of the Country party led the opposition to these reductions, while the all-round protectionists looked on with some satisfaction. The amended schedule will probably be carried, especially as the Government have arranged with the tobacco companies to purchase the leaf at a payable price of 2s. 3d., but this unusual action is a reaction to a pressure which it felt to be irresistible, and it will no doubt approach the consideration of the Ottawa policy with the utmost caution.

The difficulties of Empire tariff adjustment are indeed formidable. If an infant vested interest like tobacco growing can exercise such intense pressure for protection of almost astronomical proportions against Australian consumers, is any well entrenched secondary industry going to suffer any sacrifice at all in favour of industry overseas? The question is not one of economics or even business, it is one of politics; and the extraordinary power of organised interests over modern Parliaments suggests that the area of possible action is small. At the present time the Government is engaged in studying the question and in collecting the necessary data. It is bound to be protectionist—it realises that the Scullin tariff was extravagant and absurd; it wants to give preference without sacrificing the protective character of its policy. It sees, however, much capital invested and many men employed in industries which are entirely dependent on the tariff.

The policy adopted will have to define what we are prepared to give and what we feel is reasonable to ask. What we are prepared to give must be found at the expense either of foreign industries or of Australian. An increase

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of the margin between the British tariff and that on goods from other countries will not be easy in all cases. Generally speaking it must mean sacrificing revenue by lowering the British rates or increasing prices by raising the foreign rates upon articles in which British industry is apparently not able to give equal service at equal cost. Nevertheless there will be little difficulty from political quarters in this type of concession, and quite a respectable gift of trade can be made though at some sacrifice. But if Ottawa is to be of real benefit, to Australia from the point of view of cost, and to Great Britain from the point of view of trade, it must be by a reduction of the excessive duties and prohibitions with which the Scullin schedules flattered and encumbered Australian production. The reasoned recommendations of the Tariff Board have revealed a very large number of items upon which the haphazard tariff has only a negligible protective value, though a great restrictive effect. The whole schedule could be combed out for such items and their elimination would be a valuable contribution to Empire trade. Even such a process would encounter opposition from fanatical protectionists who consider any reduction at all a blow to protection, and are quite unable to see that the success of protection in a limited area like Australia depends on its selective character. They will probably fight to save the totally exotic and extravagantly parasitic industries, the existence of which depends entirely on the tariff. In those cases it is really "more blessed to give than to receive," for the Australian conditions are not suitable and the market too small to carry an economic producing unit. Finally, there are many items on which the duties could be lowered so that they remain protective but cease to be prohibitive. Such duties even when reduced would secure for efficient Australian manufacturers the whole of the Australian market for the big standard lines for which there is enough local demand to run producing units economic in size. At the same time, they would not prevent the import of special types or qualities.

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Sheer lack of buying power in times of depression places a limit to the value of all concessions, but such a contribution to the rationalisation of the Empire is all that can be hoped for in exchange for substantial help from the British tariff for Australian export industries.

How can the British contribution, then, help the latter industries? The chief exports of Australia, wool and wheat, are both in difficulties, but a preferential tariff would help neither, for there is a large Empire surplus of both which must find its market in foreign countries. Politicians and pedants have combined to propose a system of Empire wheat quotas, but, as Professor Wadham, professor of agriculture at Melbourne, has pointed out, quota systems are not likely to suit countries which hope to extend their wheat areas. Proposals have been carefully examined by experts and students in Australia and they have come to the definite conclusion that no system yet devised will be of the smallest benefit to the Australian wheat grower, while it is difficult to over-estimate the degree to which such a system would endanger hardly-won business connections and dislocate the established channels of trade. The two great primary industries can best be helped through their side-lines, the most important of which is meat. A preferential duty on lamb and mutton would encourage that diversification of agriculture which is so much to be desired. The pioneering section of the industry however, beef production, is in greater difficulty and might be salvaged by preference. Here, of course, the interests of British industry as well as British interests in Argentina are involved. Australia has not yet landed chilled beef in Great Britain and as frozen beef is not favoured there it seems unwise to press for any concessions.

Primary industries, in which the labour cost is high, such as dairy produce, butter, cheese, eggs, pig products, fruit, wine, brandy and malting barley, sugar, rice, hops, peas, etc., form a most important section of Australian production and would as a class benefit most from British preference.

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Some of them, notably apples and barley, are holding their own in the world markets without assistance. Others, such as dried and canned fruits and wine, enjoy certain preferences already, and great benefit might be obtained from the extension of the preference to types hitherto missed. Another group—sugar, rice, hops, peas—will probably benefit from preferences granted primarily for other parts of the Empire. But they are either so highly subsidised in Australia or their production is so small at present that they could scarcely be made the subject of a special request. Lastly there is the class of “semi-manufactures”—flour, soap, sole leather and timber sleepers. These represent practically the only manufactured exports; they would benefit from a continuance of the 10 per cent. emergency preference, and the same applies to base metals, in which the cost of labour is a big factor. Australians must, of course, admit that costs and high standards of living are factors which affect the need for preferences from Great Britain—a country with lower standards—and that a system is being established which is artificial and cannot be permanent. However, the indebtedness of Australia to the British people might make such assistance a measure of prudence.

At Ottawa, Australian delegates would be wise to concentrate upon the preferences which would be most fruitful and cause most expansion, namely, on mutton and lamb and dairy produce. If these industries were made profitable Australia's buying power for British goods would be increased. No list of minor concessions would be of much use if there were a failure in these major items.

Australia, April 7, 1932.

POSTSCRIPT.—On May 13 the Governor of New South Wales dismissed Mr. Lang, from whose department a circular had been sent to departmental heads forbidding them to pay money to the Commonwealth Bank under the Financial Agreements Enforcement Act. The Leader of the Opposition has formed a Government, and a general election is to be held on June 11. The proclamations putting the Enforcement Act into operation were thereupon suspended.—EDITOR.

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I. THE PARLIAMENTARY SESSION AND OTHER MATTERS

THE main pre-occupation of the session, so far as it has gone, has been finance. The controversy over the gold standard still dominates the field of politics and has become the principal issue between the Government and the Opposition parties. Officially the matter is still *sub judice*, as the Select Committee of the House of Assembly, which was appointed early in the session to consider whether the maintenance of the gold standard was in the best interests of the Union, is still sitting and taking evidence. But the open mind, which such an inquiry would seem to presuppose, has vanished in the stress of the political battle. The dissident voices which were raised within the Nationalist party in the early days of the controversy have been effectually silenced by the demands of party discipline. On the Opposition side there has also been a closing of the ranks, though one or two dissenters still stand apart from their colleagues.

In moving for the appointment of the Select Committee the Prime Minister informed the House that, whatever the report of the Committee might be, the Government would adhere to their policy of maintaining the gold standard. That indeed could not be left in doubt, as the only hope of their being able to maintain the gold standard lay in convincing the public of their determination and ability to do so. The Opposition, with perhaps equal reason, objected to the appointment of a committee whose

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report would be a foregone conclusion, and would in any case have no influence on the policy of the Government. Many, therefore, refused to take part in the enquiry. The report will probably appear towards the end of the session, but, while the evidence heard may compel some on either side to abandon familiar arguments, it has little chance of changing any convictions. The complaint which is mostly heard now against the maintenance of the gold standard is the scarcity of capital and credit in the country. Mortgage bonds are being called in, money on deposit with banks and other financial institutions is being withdrawn, advances on the best security are almost unobtainable. The opponents of the gold standard attribute this to the rush to buy sterling which followed the abandonment of gold by Great Britain. Capital, they say, has left South Africa to such an extent that business is being strangled. The Finance Minister in his budget speech estimated that since September last the transfer of money from South Africa in excess of the normal exchange transactions amounted to £9 million, but competent observers outside the Treasury put the figure much higher.

The policy of the Government is to maintain the currency on the gold parity of the British sovereign and to subsidise, at the expense of the taxpayer, the exporter of primary products, who is being most severely hit by the fall in world prices and the adverse exchange upon his dealings with countries whose currency is depreciated in relation to the old gold parity. The producer whose products find a market inside the country is protected as regards the internal price by tariffs, and by other devices, which are more or less effective in proportion to the extent to which the internal market can absorb his product. The consumer, therefore, gets little if any benefit from the fall in world prices, while the advantage with regard to imported articles, which he might have expected to gain from the higher gold value of his currency, is largely nullified by the increase in the general customs tariff imposed in order to

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find the revenue which is required to meet the cost of the subsidies on exports.

The budget statement of the Finance Minister was looked for this year with more than the usual interest. The position which it disclosed is certainly serious. If it leaves us with the consoling thought that it is better than that of most countries in a similar state of development to our own, that is a consolation which we owe entirely to the continued high rate of output of the gold mines of the Witwatersrand. The Minister had to face a drop in his revenue estimates for the year ended on March 31 of £2,773,000, which brought the expected revenue for the year to £26,900,000, against which, after all the reductions in expenditure which he had been able to effect, he had to face an expenditure of £28,100,000—a deficit of £1,200,000. This, added to the deficit carried forward from the previous year, left a shortage on the revenue account of £2,100,000. The prospects for the year now current were worse than those in which the last budget had been framed, and he accordingly estimated for a revenue this year of £25,845,000, that is a reduction of £3,828,000 on the previous year's estimate and of £1,055,000 on the actual collections. The expenditure he put at £27,479,000. He was, therefore, left with a contemplated deficit on the current year of £1,634,000, which, added to the accumulated deficits of previous years, leaves the revenue account short by £3,734,000. This it is proposed to provide for by new taxation estimated to raise £3,535,000, the balance of £200,000 to be carried forward. Of the new taxation £730,000 is to be raised by an additional income tax of 1s. in the pound on the dividends of gold mining companies, and a graduated surtax on interest derived from investments carrying a fixed rate of interest—the tax rising according to the rate of interest. The rest is to come from increased custom duties, chiefly from a general *ad valorem* rate of $7\frac{1}{2}$ per cent. in addition to existing duties on all imports, with certain special exemptions. This, however, does not

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represent the whole extent of the new burdens which the taxpayer will have to carry in this year of depression. A special customs duty of 5 per cent. is laid on all imports (subject again to certain special exemptions), the proceeds whereof are to go to a special fund from which is to be provided that portion of the subsidies on exports of primary produce which is not included in the ordinary estimates of expenditure. These subsidies are provided for, up to the end of October next, to the amount of £1,300,000 from the general revenue account, and £1,000,000 from the special levy of 5 per cent. Whether by the end of October the exporter of primary products will be able to dispense with the aid of subsidies may be open to doubt, and to that extent the balance of the budget is not assured. A further element of doubt arises with regard to the revenue estimated to be derived from the new customs duties. It is difficult to share the opinion of the Finance Minister that they will not affect the consumer but will be borne by the importing merchant out of the profits that he has derived from the exchange advantage accruing to him on imports from Great Britain and other countries whose currency has depreciated in terms of gold—profits which he has not yet passed on to the public. The general opinion is that they will increase the cost of living and act as an additional drag on our already languishing trade and industry, and will thus tend to defeat their own object as revenue producers.

The budget is balanced, at any rate on paper, but this is achieved not so much by reduction in the expenditure as by an additional load of taxation, on a community already labouring in the trough of unprecedented financial troubles.

The estimates of expenditure for the year amount to £27,479,000, in which, as has been said, is included an amount of £1,300,000 to provide for subsidies on exports. If for purposes of comparison this is deducted, these estimates show a reduction of £3,210,000 as compared with the original estimates for the previous year. Of this reduction, however, £1,590,000 is accounted for by the

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estimated saving in respect of interest on government loans due in London owing to its being paid in sterling instead of gold. The estimated reduction, therefore, in the cost of the administrative machine—apart from the fortuitous profit on exchange—as compared with the estimates for the previous year amounts to £1,620,000. Apart from reductions in educational and other grants, the only serious curtailment of administrative expenditure is an all-round reduction in the salaries of public servants, rising from 3½ per cent. on the lowest grades to 10 per cent. on the highest. The salaries of Members of Parliament are reduced by 10 per cent. and those of Ministers by 15 per cent. The general scheme of government activities, which many believe has now attained a magnitude in excess of what the country in normal times can afford, remains almost intact.

The Minister of Railways, in presenting his budget for the Department of Railways and Harbours, had an equally dolorous tale to tell. The railways and harbours are suffering from the drop in traffic due to depressed business conditions, and in addition the railways, like railways elsewhere, have to contend with road motor transport competition. The Administration commenced its operations for the financial year which closed on March 31 with a deficit carried over from the previous year of £679,000. The results for the year just ended are expected to show a deficit of £1,800,000. The current year, therefore, begins with an accumulated deficit on revenue account of roughly £2,500,000. No provision is made in the estimates for the current year to liquidate this deficit. It is simply being financed and carried forward in the hope of better times. For the current year the revenue is estimated at £25,997,000 and expenditure at £26,066,000, which would leave a deficit of £69,000. The expenditure estimates show a considerable reduction over the two previous years—reduced personnel, reductions in salaries and wages—but the estimate of revenue is generally regarded as reflecting an

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optimistic outlook scarcely warranted by existing conditions. It should be added that the expenditure figure quoted above includes working expenditure, depreciation and betterment, and interest on capital. In the railway budget, therefore, the position disclosed, though serious enough, will bear favourable comparison with that of State railways or even private railways in many other countries.

The results of the conference between representatives of the Union Government and the Government of India, which was mentioned in the last number of *THE ROUND TABLE*,* have now been made public, but it cannot be said that they bring us nearer to a permanent settlement of the relations between the Indian community here and the European population. Beyond the renewed expression of friendly sentiments, the only practical step that has been agreed upon is the joint consideration of schemes of land settlement in countries where the Indian would not be subject to the social and political disabilities which are imposed upon him here—schemes in which the wider experience of the South African Indian might be turned to good account by the Indian Government in its attempt to find new outlets for its surplus population. A joint enquiry by the two Governments is to be instituted, and it is to be hoped that out of it may come something which will enable Indians here, without loss of self-respect, to exchange their South African domicile for one where they will attain automatically a status which is being definitely denied to them here.

The financial depression through which the country has been passing is having its reactions in a general feeling of dissatisfaction with the existing political parties. Criticism of the Government at such a time is inevitable, but it is combined with a distrust of the party system as it exists here. The idea is very generally, if somewhat vaguely, held that our politics have come to be a mere battle of

* See *THE ROUND TABLE*, No. 86, March 1932, p. 427.

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personalities, in which the pressing needs of the people are neglected or relegated to the background. There is in some parts a more or less active propaganda for the formation of a "centre" party, led by persons who are not too deeply committed on either side to the old party controversies, which would give us a Government and a Parliament able to devote themselves to the actual problems of the day. So far this movement has failed to take visible form because no leader has emerged strong enough to break the existing bonds of party allegiance. But it is a symptom of a political malaise which might at any time take a serious development.

In Natal the spirit of political discontent has taken the form of a movement for secession from the Union. So far responsible public men have kept aloof from the movement, but there is undoubtedly behind it a strong popular sentiment, which, without any very tangible basis, is deeply perturbed by what it regards as the anti-British outlook and policy of the present Government. Natal has never been wholly assimilated by the Union. Its representatives came to the National Convention in 1909 strongly committed to the principle of federation, and only accepted the unitary constitution which was there decided upon with considerable misgiving. In Natal alone, of the four colonies which came into the Union, was the question submitted to a referendum, and although the vote went by a two to one majority in favour of Union, the opposing minority has never altogether come over. Natal in population and sentiment is predominantly British. It has never wholeheartedly put aside the outlook and affinities of a British Colony for those of a South African Dominion. Consequently the rapid advances towards an independent status culminating in the Statute of Westminster have been regarded by a considerable section of opinion in Natal with something like dismay. The adoption of a South African flag, the agitation in some quarters for the appointment of a South African citizen as Governor-General, the

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conclusion of a trade treaty with Germany which gives her the advantage of any extension of tariff preferences granted to Great Britain, the activities of a republican section within the Nationalist party, even the proposal of the Government to change our currency to a decimal system, have all had their effect in irritating the sensitive nerve.

But perhaps the most serious cause of trouble has been the dual language. Before Union, outside the districts which were added to Natal from the Transvaal after the Anglo-Boer War, the Afrikaans language was to all intents and purposes a foreign language in Natal. The Act of Union laid down the principle of equality as between the English and Dutch languages, but that principle was not at first applied as requiring public officials to be competent in both languages. In consequence, in those parts of the Union where the English-speaking element was predominant the use of the other language spread slowly, and in Natal, where it was seldom heard, not at all. With the advent to power of a Nationalist Government the regulations requiring a knowledge of both languages from public officials were more rigidly enforced, and the impression was created in certain quarters in Natal that the language qualification was being purposely used to exclude from the public services anyone who was not of Afrikaner sympathies and descent. In Parliament the members from Natal with one or two exceptions do not speak or understand Afrikaans, and therefore cannot follow the speeches of members who use that language in debate. Parliament thereby loses in great measure that influence which it ought to exert in bringing opposing sections into direct contact with each other's point of view.

The threatened breakdown of the Provincial Council system has intensified and brought to a head all the apprehensions and suspicions which have beset this section of the Natal people since Union—that they are losing their identity as a British Colony in a larger body which is hostile to their traditions and disloyal to their allegiance, and that

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an alien language and culture is being thrust upon them. Out of this has come the movement, sometimes calling itself a secession movement, sometimes a devolution movement—demanding sometimes complete secession from the Union, sometimes membership on a federal basis. It is doubtful if more than a small proportion of the responsible citizens of Natal—even of those who applaud the movement at its public meetings—would commit themselves to either of these two objectives if it came to an actual test. The movement so far is largely inarticulate—a protest against economic distress and wounded national sentiment. But a wise Government would not on that account treat it with contempt, nor fail to take note of it as the symptom of a real trouble in the body politic, which, if not treated with sympathy and understanding, may go deeper and strike at the foundations of Union.

II. THE NATIVE POLICY OF THE UNION 1910-1932

CERTAIN legislative proposals which call for more than passing comment are at present under discussion. There is the Native Servants Contract Bill now before Parliament, and a draft proclamation issued by the Minister for Native Affairs under the Native Administration Act of 1927, amending and extending to Zululand the Natal Native Code. Between them they cover native land, labour, domicile, movement, and liability to arbitrary imprisonment. To grasp their full meaning, however, they must be put up against the background of South Africa's achievement in the sphere of native policy since the Union of 1910.

The debates on these measures have brought out sharply the antagonism between two rival points of view which are traceable very far back in the history of South Africa. One is the claim of the man on the spot that only those who are in daily contact with natives can understand them,

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or ought to be heard when their governance is in question. It is a view which leads too often to the conclusion that the black man is there for the benefit of the white. The other is the view of the man with the wider angle of vision which comes of standing back somewhat, who asserts that those whose sensibilities are blunted by daily contact, and whose apparent and immediate interests conflict with those of the tribesman, are the very last people to have the final word, and that in any event the native is an end in himself and, as such, entitled to a free and honourable place in a mixed society.

Once upon a time it was imperial officials, imported missionaries, and a fairly widespread body of opinion in the western Cape districts that upheld the latter view and imposed it with a fair measure of success on the Cape Colony. To-day the imperial power counts for little, the missionaries for hardly more, while western Cape members are told, in both official languages, by men from the old republics and Natal, that they do not know what they are talking about. In short, the old liberal Cape policy has been beaten back step by step, ever since Union twenty-two years ago ; it is now fighting a desperate battle in the last ditch against the illiberal policy of the newer north.

At the time of Union in 1910, the many, white, black, and coloured, who feared this very thing, were assured that the native policy of the Cape Colony would doubtless, by its inherent virtues, wean the rest of the Union from its frontier ways. Besides, what could go wrong under a Parliament modelled on those at Westminster and Cape Town ? This comfortable prophecy has been belied under both heads. Since Union the decay of parliamentary rule has gone on side by side with a definite retrogression in native policy.

The decline of constitutionalism can be dismissed shortly. It is sufficient to say that to-day the Union is virtually a unitary State under increasingly strict bureaucratic control ; the federal elements in its constitution,

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he bulwarks of local liberties, have been undermined, and the civil service, with its high traditions, especially in the Cape, has become more and more merely an instrument in the hands of the political party in power. The Senate has been weakened gravely as a chamber of review; the House of Assembly, which began badly when the allocation of seats was arranged to favour the inexperienced north against the south, and everywhere the countryside against the towns, has not improved with age. Parliament, during the last six years particularly, has given away its powers wholesale to the Executive. Thanks largely to the contagion of arbitrary native legislation, the rule of law is waxing feebler and more fitful.

This sickness of elective assemblies is a widespread phenomenon in the present-day world; but in South Africa it has peculiar dangers because of the pressing nature of the native problem. The change for the worse in the relations of Europeans generally with non-Europeans in the Union nowadays is the outcome not so much of unchecked economic and social forces as of more or less deliberate political action. Not that this action was consciously directed towards that end, though there has been plenty of talk in responsible, and still more in irresponsible quarters, which suggests that the talkers could not help it and did not care overmuch if bad relations were the outcome of their policy. The evil has arisen from taking the short view.

Much of the post-Union native policy was foreshadowed by the majority report of the Native Affairs Commission of 1903-1905. In the main that report was the natural product of well-to-do land and mine owners, representatives of an acquisitive society hardened by pioneering experience, united for the moment with officials anxious for the labour that would carry their Five Year Plan to success by so developing mines, roads, railways and farms that South Africa would be raised rapidly to a higher economic plane than ever before. It pointed straight to

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communal parliamentary representation (if any) for the Bantu, a check on the purchase of land by natives, and the stimulation of the native labour supply by making an end of squatting on European farms.

Little or no action was taken on this report at the time; the National Convention avoided as far as might be any discussion of the disruptive native question. Nor was anything notable done during the first few years of Union beyond the enactment in 1911 of the Mines and Works Act, which sought to regularise, in the Transvaal and Free State only, the practice whereby non-Europeans were shut out from skilled and semi-skilled employment by the Colour Bar. In 1913, however, mainly in response to pressure by the Free State, where the Bantu's right to acquire land was already more restricted than elsewhere, a Native Lands Act was hurriedly passed at the tail-end of the session.

The fundamental ideas behind that law were the territorial segregation of white and black, and, incongruously enough, the even sharing out of the native labour supply among European farmers. Outside the reserves and the urban areas, many thousands of Bantu lived upon European farms. They lived either as squatters, farming what had often been their ancestral acres on shares with the owner, or making him a money payment; or else they lived as labour tenants rendering, themselves and often their families too, so many days' service each year, usually three months in the aggregate, the days being chosen at their lord's discretion. The Lands Act aimed first at eliminating the squatter, who was virtually given the choice of becoming a tied labour tenant or of going elsewhere. Secondly, it forbade the acquisition of land by natives outside the reserves, but, as some compensation for this lost liberty, it promised that sorely needed additional native areas should be marked out.

A judicial decision saved the right of natives to acquire land in the Cape Province, and in other parts the harshness

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of the law was modified slightly by administrative action. But the fact remains that the promise of 1913 is still unfulfilled in 1932 ; the additional reserves have not been granted, and each year that has gone by, as Europeans have spread over the land, has added to the impossibility of any general territorial segregation of the two races. Each year, moreover, as the existing reserves have become more congested, has added to the Bantu's economic distress and distrust of his European rulers. Responsibility for this failure must be shared by all Union Ministries ; but whereas the Botha-Smuts Ministries could plead that from 1914 till 1919 they were harassed by war and rebellion, and again from 1922 till 1924 by armed revolt, falling revenues and a dwindling parliamentary majority, the Hertzog Ministries can plead little of the kind. From 1924 till 1929 at least they enjoyed comparative prosperity and, throughout, profound peace and a secure majority. Their difficulties have arisen from complications due to the lapse of time and the uncompromising attitude of most of their own supporters and many of their political opponents.

In its later stages, the war wrought a revolution in South Africa as in other parts of the world. Manufactures sprang up, and natives, loosened from the soil by the operation of the Lands Act, drifted into the humbler ranks of the new industries side by side with Europeans, Afrikaners for the most part, similarly uprooted. The rank and file of the trade unions, on the Rand particularly, thus became more and more northern Afrikaner, and therefore more resolutely opposed than ever to any recognition of native claims to equality of opportunity, and also naturally nervous of low-paid native competition. Meanwhile prices soared and European wages rose also ; but native wages even in the towns remained well-nigh stationary. In 1918 the white miners on the gold mines of the Rand were strong enough to extract a *status quo* agreement which checked their employers' attempt to admit non-Europeans to semi-skilled occupations, while the men at the Johannes-

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burg power station successfully held the community to ransom. Thereupon the poorly paid Johannesburg sanitary "boys" struck, but, being natives, found themselves subject to the penal clauses of the Masters and Servants law. That law, of old standing in all the provinces, indeed provided safeguards for the native employee, but in actual practice provided many more for his employer. In any case the infliction of criminal penalties for breach of civil contract reminded natives everywhere that they had not the same freedom to higgle in the market as their European competitors.

Something was done to improve native wage rates on the Rand, with encouraging repercussions on rates in other parts. Then, in 1920, during a lucid interval between two periods of turmoil, General Smuts endeavoured to put the administrative side of the native question upon a sounder basis. The Native Commission of three experienced Europeans then set up to advise the Premier, and the conferences of chiefs and representatives of native associations since summoned from time to time, have done excellent work. But the local councils of magistrates and Bantu on the Transkeian (Cape) model, then prescribed for general application, could not benefit the natives scattered up and down upon the European farms. And according to the Lands Act it was they who constituted the real problem. For the rest, the promise of 1913 was not implemented. Additional reserves were to be allocated only after the economic and administrative relations of white and black should have been put upon a better footing. And when would that be?

Signs of unrest were not wanting : passive resistance by native labourers on one or two of the Rand mines, a riot by students at the native school at Lovedale in the eastern Cape Province, a serious native strike at Port Elizabeth during which unauthorised Europeans fired upon the strikers indiscriminately, and finally, in May, 1921, the tragedy at Bulhoek, also in the eastern Cape, where the

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police had to fire in ~~the~~ last resort. The effect was deadly upon a swarm of Bantu enthusiasts inflamed by the more heady portions of the Old Testament.

The Bulhoek calamity was, humanly speaking, unavoidable. The same cannot be said of much that followed. Early in 1922, a serious European revolt took place along the Rand. In some of its developments it was a revolutionary, in others a republican movement, but its primary cause was the determination of European workers to maintain the Colour Bar, in spite of the fact that the courts had recently declared regulations framed under the Act of 1911 *ultra vires*. The rising was marked by wanton attacks on mine natives, but in the end it was quelled with much bloodshed. The Colour Bar was relaxed somewhat; the mines were reorganised, and the Labour party was driven over to an alliance with the Nationalist party. This apparently incongruous alliance of urban Socialists with rural Tories was held together primarily by a determination to make South Africa safe for the white man, a determination strengthened by alarmist conclusions erroneously drawn from the 1921 census that the blacks were increasing so fast that in a comparatively short time they would swamp the whites.

So matters drifted on. In May, 1922, sinister tidings came from South West Africa of a whole-hearted exercise of military force by the civilian administrator against a petty tribe of Bondelwarts, and a subsequent prolonged passage of arms with the Mandates Commission of the League of Nations. Then, in 1923, the Smuts Government tried to regulate the flow of uprooted natives into the towns. The Urban Areas Bill as presented embodied the views of many of the natives who had been consulted; the Act as it emerged reflected the pressure which South African Ministries find it so hard to withstand. Wide powers were given to municipalities to segregate natives in separate townships, even in areas which had hitherto known no such practice, and instead of the expected freehold in such townships,

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natives were offered only leasehold. In other words, European opinion in the mass would not hear of any extension of native land ownership. The towns were to be European, the presence of Bantu there a merely temporary encumbrance.

In the middle of 1924, the Nationalist-Labour Pact Government took office and immediately introduced a Colour Bar Bill, restoring in a more explicit form the restrictions on non-Europeans in the north that had been declared *ultra vires*. It also readjusted the incidence of native taxation in such a way as to relieve the urban native in the north, but to increase the burden on all in the south, and to leave natives everywhere, in practice, dependent in large degree for funds for their own advancement on such portion of the proceeds of native taxation as had not been devoted to the general governance of the Union.

For the rest, responsible Ministers showed caution and moderation. After the session of 1925, General Hertzog toured the Cape Native Territories and, on his return in November, published a programme of native and coloured legislation. This programme was, and is, embodied in four Bills, none of which has yet become law. These Bills have been altered in detail more than once, but their general tenour has not been changed. The Representation of Natives Bill seeks to abolish the Cape native franchise of 1853-92, and to give the natives of the Union a meagre and wholly European representation in exchange. The Native Council Bill proposes to set up a carefully controlled deliberative native sub-parliament as a coping-stone to the Smuts Act of 1920. The Native Lands Amendment Bill fulfils in a measure the promises of 1913, but instead of new reserves for the exclusive use of natives, it merely provides "released areas" in which natives and Europeans may scramble with one another for the land. Finally, the Coloured Persons Rights Bill proposes, in the very long run, to put the mixed coloured folk (by definition all who are not Bantu) in a position of political equality with Europeans.

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It was already apparent in 1925 that the programme would be fiercely challenged, by political opponents on the one side, and by some from within the Nationalist camp on the other. For to offer the Bantu even the smallest representation, or to propose to treat the coloured men for political and economic purposes as the civilised folk they undoubtedly were, was to fly in the face of northern opinion, and much that was not northern. Already, in September, Mr. Tielman Roos, Minister of Justice and the Premier's chief lieutenant in the Transvaal, had inveighed publicly during a Pretoria bye-election against non-European voters, and had noted that many people thought the Bantu had too much land as it was.

No action was taken in 1926. In the session of 1927, the opposition was so strong, perhaps also the picture of the condition of the great black majority of the population drawn in the belated report of the Economic and Wage Commission of 1925 was so disturbing, that all four Bills were referred to a Select Committee. There they remained till the beginning of 1929. Meanwhile, in 1927, by the Native Administration Act, the Ministry conferred upon the Governor-General, that is, upon itself, the widest discretionary powers over every Bantu in the Union outside the Cape Province, even to the extent of power to cancel, without cause shown, exemption from these restrictions granted to any individual.

The Administration Act was the application of Natal-Zululand methods to other parts of the Union. But whereas, in times past, the Governor of Natal had exercised these powers over tribal natives, now in many parts the Bantu had developed so far that many of them were trying to form trade unions in imitation of the Europeans. The most notable of these bodies was the Industrial and Commercial Workers' Union, an amorphous body but sufficiently alarming to many Europeans by its novelty and its implications. Meanwhile, in 1928, the Labour party had split, one half cleaving to the Ministerialists, the other drifting off

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into opposition. At the end of the year, Mr. Madeley, one of the Labour Ministers, received a deputation of the I.C.U., and for that error was obliged to resign and make way for another Labour man.

Such was the prelude to the joint sitting of both Houses which took place in February 1929 to vote upon the revised Native and Coloured Franchise Bills, that is, on the fate of the Cape franchise. The voting on the former failed to give the two-thirds majority demanded by the South Africa Act. The latter Bill was therefore withdrawn, and the Premier fell in with the already expressed desire of Mr. Roos, and announced that the general election due in the middle of the year would be fought to ensure "the preservation of the white race." It was, and it gave the Nationalists for the first time a clear majority over all parties.

Earlier in the session of 1930, General Hertzog had taken the wise but unprecedented step of referring his Native Franchise Bill to a joint Select Committee of both Houses with power to take evidence. The measure still remains in the hands of that Committee. Meanwhile, the zealots of the Nationalist party have succeeded in getting something of what they wanted along another route. As far back as 1926 some of them were demanding European women's suffrage, frankly to counterbalance the Cape non-European male voter. Two years later, General Hertzog touched upon the same subject indirectly by promising that coloured women should share in any franchise given to coloured men. Two years later still, in 1930, he had been obliged to give the franchise to European women only throughout the Union. A year later the inevitable sequel followed, and the republican privilege of one vote to every white man was extended to those who could not attain to the very moderate pecuniary and educational qualifications hitherto demanded in the Cape and Natal. Thus the Cape coloured women were disappointed, a wedge was driven deeply into the Cape fran-

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chise and incidentally into the South Africa Act, and those best qualified to know were given every ground to expect a marked accession in Nationalist voting power, certainly in response to any such cry as the Black Peril.

So much for the coloured woman. The fate of the coloured man is still in the hands of the joint Select Committee, but it is also being canvassed elsewhere.

It was in keeping with the franchise policy of 1930-31 that the census of 1931, which by law should have been one of the decennial numberings of the whole population, was at the last moment and on the grounds of economy confined to Europeans only. A census of this latter kind takes place every five years to provide the data for the re-allocation of seats in the Assembly, and to that extent the census of 1931 will prove useful. But, for the rest, by omitting three-fourths of the population, it condemns us all to work in the dark, with the Premier's native and coloured programme (inspired largely by the census returns of 1921) still in the balance, an Urban Natives Commission still sitting, the arguments of the Economic Commission of 1925 still unanswered and its conclusions unfaced, and a very grave economic situation developing which, world causes apart, is due to the notorious maladjustment of our economic life.

Since 1918 the Union has adopted a number of measures to regulate its new manufacturing activities—factory and wage Acts, apprentice, juvenile advisory, industrial conciliation, and wages boards and so on. Hence considerable numbers of European employers and workmen are organised and protected. Not so in many cases non-Europeans as a body, still less the Bantu in particular. Except in the Cape non-Europeans are excluded from trade unions and so cannot share in the benefits of some of these laws. From some again the Bantu are cut off because they do not apply to agriculture and domestic service, their two great outlets other than the mines, which are specially provided for. In practice also the conciliation, wage board and apprentice-

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ship Acts tell against them. Further, the white labour policy pursued by the Pact Administration, more particularly on the widespread State railways, displaces them in favour of Europeans who are subsidised by the general taxpayer to undertake low-paid tasks. Finally, the Bantu are hit twice over by the protective tariff, which was begun tentatively by the South African party Government in 1921, and pushed outward and upward by the Pact since 1925 in the cause of economic self-sufficiency. The enjoyment of a protective duty by an industry depends in some cases on its employment of civilised, that is, non-Bantu labour, while any tariff must press hard on a class lowest in the economic scale, whose freedom of movement and choice of occupation are as restricted as those of the Union's natives.

A protective policy which demands above all a good home market sorts ill with a system which keeps the mass of its people at a terribly low standard of life. The native legislation before Parliament this session is hardly calculated to raise the standard.

The Native Service Contract Bill gives way to long-expressed demands. As far back as 1919, Nationalists were demanding that no native be permitted to move from home without a permit from his master; in 1925 again, to the unconcealed annoyance of General Herzog, others, supported this time by South African party men of British stock from Natal and the eastern Transvaal, urged that labour tenants be brought under the criminal sanctions of the Masters and Servants Act. That proposal was talked out by Labour. But now, in 1932, General Herzog has given way and sanctioned nearly all these things in a measure on which neither the Native Affairs Commission nor the Native Conference have been consulted, and which, in advance of the expected report of the joint Select Committee, touches his own native programme all along the line.

This Service Contract Bill deals with natives living out-

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side the reserves and urban areas in the Transvaal and Natal. Its effect, wherever it is put into force by the Governor-General, will be to oblige landlords, whether individuals or companies, to transform their comparatively free native squatters into tied labour tenants. This will be done by imposing on the landlord a swinging licence duty of £5 per annum for every male able-bodied native living on his farm who has not been in his service for so many months in the aggregate during the year. As an alternative, he must get rid of his squatters, presumably to other farms, or to the reserves which are already overcrowded, or to the towns which are busy shutting them out or otherwise limiting their freedom of action. Even Cape Town, where the battle for civil liberty was fought and won four generations ago, is contemplating seriously the adoption of the pass system for native men and women, which has proved to be such a burden and such a recruiting agency for the gaols in the north.

The second aim of the Bill is to tighten up the law governing labour tenancy, in minor matters in favour of the native tenants whose bargaining powers will have been reduced to a minimum by what has gone before, but in all major matters in favour of the landlord. The usual period of service envisaged is one of six months spread over the year instead of the hitherto customary three, though lesser periods as short as three may be prescribed by authority. No native is to move away from his home in search of agricultural or domestic employment without an identification card. Native guardians (and the term covers a multitude of relationships) may bind their dependants, male and female, without their consent, to work anywhere in the Union till they are eighteen years of age. Families are to be held responsible for breach of contract by any one of their members. Breach of this—a civil contract—is at last made subject to the penal sanctions of the Masters and Servants Law, which is now to include, as a novelty, limited whipping by order of the magistrate for lads under eighteen

The Native Policy of the Union 1910-1932 years of age in addition to or in lieu of fines and other penalties.

It may be conceded cheerfully that many clauses in this Bill will appear less startling to South African natives and Europeans than to readers overseas accustomed to a homogeneous society and a twentieth century social structure. For instance, the idea of collective family responsibility is deeply rooted in native custom ; native heads of families desire to keep stricter control over their children, over the girls particularly ; further, as the Economic (the so-called Clay) Commission of 1925 abundantly proved, South Africa's rural economy belongs in many parts, not to the seventeenth century as Mr. Bernard Shaw suggested after his recent visit, but to the late fourteenth, the period of feudalism in decay. It may also be conceded that the squatter system has its attendant evils, especially on the farms of absentee landlords. But when all is said and done, this law will give thousands of Bantu the choice between becoming vagrants dogged by all the pains and penalties that attend the masterless man with a swarthy skin in this Dominion, or of becoming serfs-at-will denied the customary security of tenure enjoyed by serfs in most other times and places. And the law sees to it that even the unwilling landlord shall be obliged to put this hard choice before his clients.

The Contract Bill has been attacked vigorously in a manifesto signed by Sir James Rose-Innes and Sir Clarkson Tredgold, ex-Chief Justices respectively of the Union and of Southern Rhodesia, and by the heads of nearly every Christian denomination in the country. It has been opposed by General Smuts, who observed that it would not even help the farmers, by enlightened Transvaal members like Mr. Duncan and Mr. Hofmeyr, and by the compact little group of Cape Peninsula members which has been strengthened recently by the accession of the ex-Independent, Mr. Alexander, probably the sole out-and-out Liberal the Assembly can boast. On the other hand, the solid phalanx

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of Afrikander Nationalists takes it all for granted, and it has the support of many South African party men of British and other stocks, notably of the Natal members, though the whipping clause stuck in the throats of some of these last, and drew forth a protest from the Missionary Conference of the Dutch Reformed Church.

There remains the proclamation which the Government proposes to issue providing a revised code of native law for Natal and Zululand. Without going into details it is sufficient to note that any native commissioner may arrest a native for non-compliance with an order and punish him summarily with no appeal to the courts, but merely a report to the commissioner's superior. Similarly, the Governor-General, as Supreme Chief, may imprison any native "dangerous to the public peace" and keep him in prison for three months. Only at the end of that period may the prisoner appeal to the Supreme Court, and as far as can be seen there is nothing to prevent the authorities from re-arresting him for another term just before the three months is over. Finally, "neither the Supreme Court nor any other court of law, shall have any jurisdiction to question or pronounce upon the validity or illegality of any act done by the Supreme Chief in the exercise of his power." . . . *Ave Caesar!*

South Africa.

April, 1932.

NEW ZEALAND

I. THE EXPORT CREDIT POOL

THE publication on December 24 of the Export Licences Order, 1931, under the Board of Trade Act, 1919, occasioned much surprise and speculation and not a little uneasiness, in spite of a reassuring statement by Mr. Forbes, the Prime Minister, which accompanied it. The object of this order was to compel exporters to take out licences for all goods which are to be sent overseas, and to have all exchange credits obtained by the sale of such goods pooled under the control of the Associated Banks. The measure was, as Mr. Forbes explained, the direct outcome of the financial difficulties which had compelled Great Britain to abandon the gold standard. The huge withdrawals of foreign balances, which had left the London market bare, dictated, he said, "an abrupt change in our financial plans." Our overseas obligations (amounting to about £8,000,000 a year, with the addition of £4,000,000 of Treasury Bills shortly due) must be met, as they fell due, from New Zealand funds.

The exchange requirements of the Government (the Prime Minister pointed out) will be large, and in order to ensure that sufficient London credits will be available for the purpose, the Government, after a careful review of the whole position, has reached the conclusion that it is necessary to introduce a scheme for conserving the exchange resources of the Dominion. In the national interests the banks have agreed to pool their exchange resources so as to be in a position to meet the Government's requirements, and the scheme embodied in the regulations just issued was drawn up for the purpose of bringing all exchange credits arising from the sale of exports into the pool.

It was found that the best way of doing this with a minimum of inconvenience to the commercial community was by licensing exports. Exporters, however, will continue to receive, as heretofore,

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the current rate of exchange on remittances from abroad and otherwise will be put to very little trouble. . . .

The measure is an extraordinary one, but we are passing through extraordinary times when prompt action is necessary to cope with the rapidly changing circumstances. I am sure that the people of the Dominion will agree that New Zealand must honour her bond, and this control of the exchange resources is merely for the purpose of ensuring that the Government is in a position to meet all commitments on the due date.

No alteration in the exchange rate was made by the arrangement concluded between the Government and the banks, nor did the Government itself assume control, but the competition of outside agencies was excluded. The rate had been fixed by the banks at 10 per cent. early in 1931, and the very slight extent to which the outside rate had diverged from this figure suggests that, on the basis of supply and demand, it was a fair rate. The grounds for the policy of the banks were explained by Mr. Grose, the General Manager of the National Bank of New Zealand, and Chairman of the Associated Banks.

Practically all last year (he said in a statement published on February 20) the bank telegraphic transfer rate on London was 10 per cent. premium. If this rate had been too high or too low the outside rate would have shown a marked divergence, for there was a considerable outside market then. But when London funds were much in demand the outside rate was only slightly above the bank rate, and towards the end of the year, when London funds were not in such demand, the outside rate was slightly below the bank rate. Taking this into consideration, and also that a steady rate is more equitable for contracts than a too sensitively fluctuating rate, it is clear that on the basis of supply and demand the bank rate was correct.

The trade figures for 1930 showed an excess of exports of a little under £2,000,000, which was altogether insufficient to cover interest and debt service. Early in 1931 the rate was increased from £5 to £7 10s., and a little later to £10 premium, which rate has continued. The increase in the rate was mainly to restrict imports, and the calendar year 1931 showed an excess of exports of over £10,000,000, which, though still insufficient, was a strong move in the right direction.

The cruel plight of our primary producing industries and the peril in which it involves the whole country

The Export Credit Pool

have certainly not been overlooked by the Government. Its two leading figures—Mr. Forbes and Mr. Coates—are both farmers, and the following statement expresses the view of the Minister of Finance, who ranks next to them in authority.

Over and above the budget problem (said Mr. Downie Stewart in his Supplementary Financial Statement on October 6) there is imperative need for rendering some assistance to the farmers if they are to stay on the land and if production is not to decline rapidly, and, indeed, if we are to avoid a national disaster in a general breakdown of the farming industry. While prices of primary products remain at their present level it is, of course, impossible to restore the farming industry to a condition of prosperity. But in so far as it is possible to assist the farmer, it is in the interests of the whole community that funds be found from some source for this purpose.

The three great problems with which the country is faced are, therefore, the precarious position of the farmer, the position of the public finances, and the great and chronic problem of unemployment. These problems are inextricably interwoven, and they constitute a menace to the whole stability of our social organisation.

But for the present the other measures that the Government have in hand for the relief of the farmer, and indeed all other political issues, have been dwarfed by the powerful agitation against the Export Licences Order, which has seriously embarrassed, and was even considered likely to divide, the Cabinet. On January 13, a deputation representing the Meat Producers Board, the Dairy Board, the Sheep-owners Federation, the Fruitgrowers Federation and the Farmers Union waited upon the Prime Minister, after a conference at Wellington, to protest against the restrictions upon exchange and to demand that the producer should be given free access to the world's market. Mr. David Jones, a member of the Meat Producers Board, who had to resign his position as Minister of Agriculture after losing his seat at the general election, was the chief spokesman of the deputation.

When the Government went to the country (said Mr. Jones) it asserted that it was essential that the cost of production should be reduced to enable the produce of New Zealand to compete in the

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markets of the world. The Government Statistician's figure of the producing cost was £,500, whereas the selling figure was 787. Until those figures were brought fairly close together it was quite impossible for the farmers of New Zealand to produce and live in competition with the world. . . .

The position of the farmers was more serious to-day than it was last year, because last year a large number of the farmers had a certain reserve of capital which they could trade upon, but that reserve had now gone. The conference was unanimously of opinion that unless something is done to relieve or improve the position of the farmers by some means we are not very far away in New Zealand from a very serious collapse as far as the financial position of the farming community is concerned.

The conference felt that the farmer on really first-class land, whose liability was not too great, would probably get through all right; that the farmer on second-class land, if he was thoroughly expert, would be able to pay his way, but that was questionable in some cases. As far as the farmer on third-class land was concerned—and this point was of special interest to the Government in connection with its own land—it was felt that he had not a chance of getting through. When they spoke of third-class land, they were of opinion that over 10,000,000 sheep in New Zealand to-day were being farmed at a loss to the owner. That was a statement that the Government could prove from their own figures in connection with the high country. The rents were not coming in to-day from that high-country sheep land.

In this critical state of affairs, when a marked increase in production was essential, Mr. Jones argued that anything tending to aggravate the situation would be against the interests not only of the farmer but of the whole country, and the conference considered that the Export Licences Order would have this effect, as it would stop competition for the export exchange and thus hinder the exchange from finding its own level. The New Zealand farmers were in competition with farmers of other countries who had a free exchange and were obtaining the full benefit from it to-day.

The conference held the opinion (Mr. Jones continued) that if the farmer were given the full value of the exchange by means of a free market, it would mean setting free a large amount of money, which would mean increased employment and more production. It would also mean increased revenue to the Government. The

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conference maintained unanimously that in their recommendation they were taking the long view—really the only view—that it was impossible to carry on farming in New Zealand successfully unless the farmers got the bonus which they would receive from the higher exchange rate. It would also be an advantage to the country. Our opinion is that the embargo should be lifted and we should be free, as Australia is, and as Great Britain and other countries are.

The example of Australia was naturally made much of by those who spoke after Mr. Jones, and the opinion was expressed that if the exchange rate were to be made free it would rise to the highest Australian level, viz., 30 per cent. In the controversy that followed this interview, indeed, both sides were far more concerned with raising the rate to 25 or 30 per cent. than with freeing it.

In reply to the deputation the Prime Minister contented himself with saying, in rather more precise language than before, that the banks had found themselves unable to guarantee the amount required by the Government unless the whole of the export trade passed through their hands ; that the control of the rate, which was still left to them by the Order-in-Council, would not be interfered with by the Government; and that a 30 per cent. rate would increase the cost of transmitting the £12,000,000 payable by the Government in London this year from £1,200,000 to £3,600,000, but that the matter would receive its very serious consideration.

II. THE ECONOMIC COMMITTEE'S REPORT

THE silence of Ministers on a question which after this interview became the subject of a very keen controversy suggested a division of opinion, and this view was strengthened by the Prime Minister's announcement on February 12 that the Cabinet had appointed a committee "to examine the economic and budgetary position of the Dominion." The personnel of the committee is as follows :

Dr. James Hight, formerly Professor of History and Economics

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and now Professor of History, Canterbury College (Chairman); Dr. D. B. Copland, Professor of Commerce, Melbourne University; Mr. A. H. Tocker, Professor of Economics, Canterbury College; Dr. H. Belshaw, Professor of Economics, Auckland University College; Mr. A. D. Park, Secretary to the Treasury.

The chief objections to the composition of the committee were that it did not include a banker, and that when Dr. Copland visited New Zealand last year he was in the employ of the Bank of New South Wales, the strongest advocate of high exchange in Australia; further that he himself had been publicly advocating that policy in the Dominion.

With the exception of certain sections dealing with the budget, which are being held back until the Minister of Finance is ready to produce his Financial Statement, the report of the committee was laid upon the table of the House of Representatives on March 4. It is an able, lucid and comprehensive document which, in 36 pages and an appendix of 18 tables and several graphs, sets out the economic troubles of the country and discusses possible remedies. Although differences of opinion permitted "no specific recommendations," the balance of its argument, from which Mr. Park alone dissented, was strongly in favour of a high exchange. The principal basis of New Zealand's prosperity has always been her external trade. "Nearly 40 per cent. of her income," says the committee, "comes from exports, and of these 94 per cent. are pastoral and dairy products. The course of prosperity in New Zealand has been determined largely by the movement of export prices and overseas borrowing." These two causes gave the Dominion almost unbroken prosperity from 1895 to 1921, and during the next eight years export prices were still good; but in 1930 they fell heavily and the mischief was aggravated by the failure of other prices to fall in sympathy. The value of farm production, which was £82,100,000 for the year ended June 1929, was only £54,000,000 for the year ended December 1931. "The main problem in New Zealand," continues the report,

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"is to remove the disparity between export prices and internal prices and to adjust her economy to a lower level of overseas borrowing."

The national income, which was estimated at £150,000,000 in 1928-29, is now about £110,000,000 and is still falling fast. Of this loss of £40,000,000, about £28,000,000 is estimated to have fallen upon the farmers, but urban industry has also been severely hit. The public revenue has suffered to much the same extent as the national income, the decrease being about 27 per cent., and the burden of interest charges has been increased by the fall in export prices. "About 1,600 units of exports," says the report, "are now required to pay the same interest bill as was paid by the sale of 1,000 units in 1928-29. In 1928-29 about 16 per cent. of the national income was required to pay taxes and rates as against 26 per cent. of a much smaller income in 1931-32."

Approaching the general problem of readjustment, the committee declares that the fundamental issue is "to restore the spending power of farmers by causing profits to emerge"; and that the crux of the problem is "to remove the disparity between farm costs and farm selling prices." The removal of this disparity would restore the farmers' spending power, enable them to purchase with their reduced income the same quantity of goods and services as before, and thus bring industrial output back to its former level. But this result cannot be attained while the loss is borne mainly, as it is at present, by the primary producers and the unemployed. An equality of all-round sacrifice is required in place of the piecemeal methods of economies and taxation hitherto employed, and the more rapid the readjustment the quicker will be the recovery and the smaller the loss.

The committee then proceeds to examine the exchange mechanism of New Zealand and its working, the effect upon the budget and export prices of the present exchange rate (10 per cent. above parity with sterling) and the probable consequences of restoring the gold standard or raising the exchange rate to 40 per cent. The arguments

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with regard to the relations of the low and the high rates of exchange to economic readjustment are summarised in the following paragraph.

The present 10 per cent. exchange rate (says the committee) discourages imports and helps to sustain export production by adding to the gross income of exporters. In general, an exchange rate above parity will benefit exporters, because the addition to gross income more than offsets any increase in local costs through the higher exchange rate. Such a rate also sustains the money value of national income above its level at parity with sterling or at parity with gold. Thus at 40 per cent. exchange national income is estimated to settle at £112,000,000 compared with £80,000,000 at parity with sterling and £90,000,000 at the present 10 per cent. rate. The additional national income sustains revenue at a higher level and more than compensates for the increased exchange charge on the overseas debt service, both State and local body. By sustaining a higher price level than would be possible at parity of exchange, a rate above sterling sustains security values and strengthens the position of financial institutions whose liabilities are in fixed money claims and whose assets vary with the price level. By raising the level of export prices in local currency the rate above parity with sterling lessens the adjustment in fixed charges, wages, and salaries that have to be made to restore the equilibrium between costs and prices in export production. . . . At parity of exchange the reduction in costs which would restore profit in export production and leave exporters with the same loss of real income as the rest of the community would be 35 per cent. It would be more than 25 per cent. at the present 10 per cent. exchange, 15 per cent. at a 40 per cent. exchange rate, and 50 per cent. at parity with gold. It is thus easier to make an adjustment at a rate above sterling than at parity with sterling or with gold.

As regards the £9,000,000 that the 40 per cent. exchange would add to the costs of imports in New Zealand currency, the committee argues that there would be no additional cost to the community as a whole. Income is transferred from some sections of the community to exporters. This transfer is a matter of adjustment within the community itself. Nor will there be any injustice to importers, since they can pass on the additional cost to the community, and the high rate will not reduce imports below the quantity that the community can afford to buy.

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The report next considers the effect of a high exchange rate upon the Dominion's credit overseas :

This (it says) is a question upon which opinion varies. In the immediate future the Dominion's credit abroad would be adversely affected, because the rise in the rate would draw attention to the gravity of the economic situation in New Zealand. This is a point for consideration in connection with necessary loan operations overseas. If, however, the situation was being met with courage and determination, and the country demonstrated its capacity to restore sound trading conditions and meet its external obligations, national credit would recover even if the higher rate be maintained and if the currency be devalued.

A warning is, however, given that the mere raising of the exchange rate would not be enough, and that "a very high rate might lead to lack of confidence in the currency and cause considerable financial disturbance." The 40 per cent. rate, which is the basis of most of the committee's calculations and is 10 per cent. higher than the maximum demand of the farmers, it evidently considers a high, though not a very high, rate. But, whatever the rate, it insists that adjustments in fixed charges, rent, wages and public finance will also be needed.

The rigidity of fixed charges at a time of falling prices is considered by the committee both to hamper industry and to prevent the equitable distribution of the loss over the whole community. It points out that, except in cases where there have been voluntary concessions, the recipients of fixed incomes are actually better off than they were before owing to the fall in the cost of living.

An adjustment of fixed incomes (they say), whether by means of a special levy or reduction in such incomes, would not impose undue hardship upon the recipients. This adjustment might be facilitated by a special duty on fixed income elements, the extension of the Mortgagors Relief Act or, in the case of public debt, by further income-tax or by conversion operations. Any reduction in private interest should be all-inclusive, covering interest upon goods sold under the time-payment system, as well as on interest under mortgages, urban or rural. Similar conclusions apply in respect of rents. A reduction of 20 per cent. in fixed money claims would make a sub-

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stantial and equitable contribution towards bridging the gap between costs and selling prices.

Having undergone a 10 per cent. cut last year, wages are treated in a different manner in order to arrive at the same result. The decline of 11·5 per cent. in the award rate of money wages between 1929 and September 1931 is almost exactly balanced by the decline of 11 per cent. in the cost of living.

During the same period (says the report) the community has incurred a loss of real income of from 10 per cent. to 15 per cent., and a further reduction of 10 per cent. in wages and salaries* would be necessary to bring wages down to conform with the real loss in national income . . . In view of the changed economic situation undue restrictions on working conditions, which may have been appropriate in the past, should be relaxed.

In what is in effect a dissenting judgment, Mr. Park, the Treasury representative on the committee, expresses his general concurrence with the parts of the report that describe the existing economic position and prove the need for an all-round adjustment of costs to restore the economic balance ; but he qualifies it by some important reservations which may be summarised as follows.

As regards the effect of changes in the exchange rates, he points out that the hypothetical comparison of the effects of different rates takes account of the ultimate effects only, and that before stabilisation was reached at any of the assumed levels it was very likely that the factors on which the hypothesis was based would have undergone a considerable change. He particularly disputes the contention that there would be a net gain from an increase of the exchange rates ; he is, on the contrary, convinced that the immediate effect would be far greater budgetary difficulties. An exchange rate of 25 per cent. would mean an increase in the Government's expenditure for the

* In the official summary of Section XI from which this quotation is taken the words "and salaries" appear to have slipped in by mistake. Salaries are not mentioned in the section itself nor elsewhere in the summary.

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next financial year of £1,500,000, a loss in customs revenue of another £1,500,000, and an indirect loss in income tax and other items of revenue of perhaps £500,000, making an adverse total of £3,500,000.

Referring to the future of the currency, Mr. Park reminds us that other countries have devalued their currencies, but only apparently by way of recognition of an existing depreciation. To fix intentionally and in advance the point to which depreciation is to go is a very different matter, even if it could be assumed that it is possible to control depreciation and check it at such a point, an assumption which is not borne out by the experience of other countries. Moreover, to raise the exchange rate artificially above the level required to balance external receipts and payments amounts to an intentional depreciation of the currency, and the proposal to use funds accumulated in London, for the purpose of maintaining such an artificial balance, would, Mr. Park contends, certainly prove costly and perhaps impossible. There might, moreover, be repercussions that cannot be foreseen. Besides, the country, he considers, badly needs the reduced volume of imports that is at present obtainable in exchange for our exports, but this proposal would still further reduce it by raising the prices of imports. To raise the exchange rate for the benefit of one section of the community at the expense of the rest would establish a precedent which might later lead to similar demands from other sections, with disastrous results in so far as confidence in the currency is concerned. The depreciation of our securities in London, too, which naturally follows a normal rise in the exchange rate, would be greatly increased by an intentional depreciation of the currency, and this would prevent fresh borrowing abroad and embarrass us in dealing with maturing obligations. Finally, says Mr. Park,

whatever the exchange rate may be for the time being, any change in the currency laws should be considered only when sterling is again on a permanent basis and general economic stabilisation at

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some level has actually been reached in the Dominion. New Zealand is linked with Great Britain by strong ties of sentiment, trade and debt, and it would be inadvisable to make any permanent change in the basis of New Zealand currency without full discussion of the matter with the British authorities.

It was generally expected that the Government, which had hesitated for so long, would, in view of the report of the Economic Committee, finally come down in favour of a high exchange rate. It came to the opposite decision on March 11. In reply to a question in the House, Mr. Downie Stewart pointed out that, in any event, quite apart from the failure of interested parties in the Dominion to agree, it would be necessary to obtain the concurrence of London interests which had incurred obligations on the Dominion's behalf on the faith of the arrangements made in New Zealand to meet the overseas emergency.

In recent times (continued the Minister of Finance) many Governments have found it necessary to take control of the exchanges in much the same way as the New Zealand Government found it necessary to create the exchange pool owing to a sudden emergency arising in the London money market. The pool was created not for the purpose of keeping down the exchange rate, but as a precautionary measure to see that adequate funds could be purchased for government requirements, and that all exchange credits were conserved and used in the best interests of the Dominion of New Zealand. In a national emergency of this nature, national requirements must take precedence over private or sectional interests, and some measures of restriction on individual freedom must inevitably be accepted in the public welfare.

Conditions in the London money market are improving rapidly, and if the present favourable tendency continues the Government may in due course find it possible to get some relief from the stringent conditions which rendered necessary the formation of the exchange pool. In this event, a reconsideration of the present conditions imposed in New Zealand will be possible, and I can assure the hon. member that the regulations will not be maintained any longer than is necessary to ensure government requirements being met.

In conclusion, I may say that the Government does not propose to interfere with the rate of exchange, and in the meantime does not consider it advisable to make any alterations in the regulations for effecting a pooling of the exchange resources.

The Ottawa Conference

This decision came as a great relief both to the nervous trader whose enterprise has been checked for two long months of suspense, and to the taxpayer who, though unable to answer the expert's academic arguments, knows that inflation is easier to start than to stop or to limit, and that this kind of appetite has been accustomed to "grow by what it feeds on." There is even some small comfort for the farmer in the Finance Minister's sanguine view of the London money market, and his assurance that the restrictions will not be retained any longer than the necessities of the Government require. Special congratulations are due to the Minister, who is himself an economist of high standing, though he has not learnt, as some of our economists have—apparently under Australian inspiration—to talk lightly of budget deficits, under such abnormal conditions, as not necessarily being a sign of unsound finance, and of the possibility of dealing with them by means of Treasury bills. A contrary decision might have compelled him, according to Mr. Park's estimate, to raise an extra £1,500,000 in the first year of a high exchange, and an extra £3,500,000 in the second.

III. THE OTTAWA CONFERENCE

BUT there is another capacity in which Mr. Brownie Stewart has equally good cause to be pleased with the decision to which he has guided his colleagues. The Ottawa Conference is approaching, and it is improbable that the heavy responsibilities of his two senior colleagues, Mr. Forbes and Mr. Coates, will allow either of them to leave New Zealand. But Mr. Stewart holds the two portfolios, Finance and Customs, which are most intimately related to the work of an economic conference, and it is therefore likely that he will represent New Zealand. For so staunch an imperialist, it would have been a bitter blow if he had had to go to Ottawa, on behalf of a Dominion

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which has hitherto prided itself on its imperial spirit, to negotiate imperial preference with his hands tied by an exchange rate, representing an undiscriminating and irreducible addition of 25 per cent. to our tariff on all imports, British and foreign alike. Such an addition would have hit Great Britain, our best friend and customer, the hardest of all.

Even without the crushing handicap of a high exchange rate, New Zealand's position at Ottawa will not be an easy one. We all see that the substantial preference which Great Britain now offers under her new tariff calls for substantial reciprocity instead of a mere raising of duties against the foreigner, a step which costs nothing. When we were prosperous and Great Britain had no tariff favours to offer, nobody gave the matter a serious thought ; but to-day, with every industry here depressed and our leaders anxious and distraught, it is almost impossible to overrate the importance of the offer which Great Britain has made. A time when everybody, willy-nilly, has sacrificed so much is a bad time to ask for more sacrifices. The problem is, however, not quite so simple as that. In this case, one particular class or industry will be asked to make a sacrifice for the benefit of another class or industry, and, unfortunately, this antagonism of interests will follow substantially the line of cleavage that divided town and country on the exchange issue.

So far, however, there cannot be said to have been any cleavage at all, for no leader or organisation of any kind has started an agitation or propounded a policy, and, on the principle that it is better to receive than to give, such spasmodic references as have been made to the matter welcome England's offer without, however, the faintest suggestion of the form, if any, that our own proposals in return should take. The only important ministerial reference to the subject was the Prime Minister's announcement on February 25 that a special committee of the Cabinet, consisting of himself, Mr. Coates, Mr. Downie

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Stewart and Mr. Masters, had been appointed to prepare for the Cabinet's approval a policy which could be put forward on behalf of New Zealand at Ottawa.

The Chambers of Commerce, the Manufacturers Association, the Farmers Union, the various control boards and many other bodies, as well as members of the public, will (he promised) be invited to make any representations or suggestions that may occur to them, and the fullest possible consideration will be given to every aspect of the problems to be solved.

It is obviously a wise course to consult the bodies representing the interests specially concerned in the most comprehensive manner, but as few, if any, of these interests have given any precise attention to the matter, a fairly definite lead will be needed if definite results are to be obtained. Publicly, at any rate, no such lead has yet been given by the Government.

IV. THE SPECIAL SESSION

THE first session of the twenty-fourth Parliament of New Zealand was opened by the Governor-General on February 23. In the ordinary course Parliament, which was elected in December, would not have met till the last week in June, but, as Lord Bledisloe pointed out in his speech from the throne, "the abnormal financial and economic position of the Dominion" had made it desirable to summon this special session. Like the National Government of Great Britain, our Coalition Government had asked the electors for a free hand and got it.

At the general election (said His Excellency) my Government, in inviting an expression of the country's confidence, appealed for unfettered authority in the existing emergency to adopt such measures for meeting it as circumstances might from time to time appear to justify.

It was known that a National Expenditure Commission and the Economic Committee were still helping to shape

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some of the most important of these measures, but all that the speech from the throne had to say on the subject was that the Mortgagors Relief Act required amendment, and that Bills would be introduced to improve the method of unemployment relief and to amend the system of industrial conciliation and arbitration.

The general attitude of the Government towards the system of industrial conciliation and arbitration had been announced by the Minister of Finance to the late Parliament in the Supplementary Financial Statement, to which reference has already been made.

The bearing (he said) of the operations of the Arbitration Court on the farmers' costs, unemployment and the industrial situation in general has received the careful consideration of the Government. It is considered that many conditions and restrictions now in operation in many of the Arbitration Court awards seriously militate against the employment of our people. The economic conditions now existing demand more flexibility. For the purpose of making it possible for employers and employees to arrive at agreements that will enable costs to be reduced, and at the same time allow for maximum employment and the fullest development of our industries, it is proposed to amend the Act mainly on the lines suggested by the 1928 Industrial Conference,* the chief feature of which is known as compulsory conciliation and voluntary arbitration.

Although the text of the Bill† had not been circulated, the Labour party blocked the motion for its introduction by a prolonged "stonewall" stand on February 26 and 27, which compelled the House to sit on Saturday, and to renew the closure resolution which had been tried last year and allowed to lapse. Unreasoning obstruction of this kind was bound to lessen the force of arguments against the Bill when it made its appearance, but when it did appear it was found to provide plenty of material for criticism.

When the measure was first brought before Parliament it contained a clause authorising the Minister to exempt

* See THE RURAL TIMES, No. 72, September 1929, pp. 88-900.

† The Industrial Conciliation and Arbitration Amendment Bill.

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classes of persons from the operation of the Act by Order-in-Council. It is true that certain industries, especially farming, have a reasonable claim to be exempt, but the relief should come from Parliament without the intervention of ministerial discretion, which might obviously destroy the whole system, and it is a matter for satisfaction that the clause was withdrawn when the Bill went into committee. Another provision which is regarded as too sweeping is that which permits either side to prevent an appeal to the Arbitration Court from a finding of the Conciliation Council. The second reading of the Bill was moved on March 10 by the Minister of Labour (Mr. A. Hamilton), in a speech which, in spite of persistent interruptions from Labour members, made a good impression. But more serious, from the Government point of view, than the inevitable hostility of Labour were the strong objections taken to some of the provisions of the Bill by several Government supporters, one of whom, Mr. J. Connelly, had told the electors that he would not stand for the abolition of the Arbitration Court or stand by and see it made an empty shell. When the second reading of the Bill was carried with the aid of the closure on March 15 by 41 votes to 29, the minority included five Government supporters, of whom two were ex-Ministers.

The most startling evidence up to date of the economies forced upon the Government by the closing of the loan market was the statement of Mr. Coates, the Minister of Public Works, on March 1.

Apart from the separate funds for the construction of main highways, the amount of borrowed money available for the Public Works Department in 1931-32 was five and a half million pounds. The first estimates of the department for the coming year were being framed, the Minister explained, on the assumption that £2,800,000 would be available, but the basis had been reduced by the closing of the loan market to £1,234,000. A reduction at a single

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stroke of £4,308,000, representing 75 per cent. of last year's expenditure, came rather like an avalanche, but there was no choice. "The country," said Mr. Coates, "must face the facts"—which Labour, not for the first time, showed itself unwilling to do.

It had long been a complaint against the Public Works Department that it was overstaffed, but Mr. Coates informed the House that in the first two months of the year no fewer than 340 officers had been dismissed, reducing the cost of supervision by £81,000, or about 20 per cent. If the 12,000 workers in the department's employ had been reduced by 75 per cent., like its capital expenditure, it would have meant 9,000 dismissals.

Rather than adopt the method of wholesale reduction by dispensing with so many (said Mr. Coates) it is felt that, in all the circumstances, and to prevent undue distress, the better course would be to employ as many men as possible, and in order that this policy may be followed it is proposed to turn the whole of the public works undertaking on to a purely relief labour basis until such time as conditions improve.

Thus Mr. Coates's two onerous responsibilities—public works and unemployment—may be said to have almost merged into one another. They might both be combined in a single relief works department until the loan market opens again.

The first report of the National Expenditure Commission was laid on the table of the House of Representatives on March 11, and, whatever else may be said about it, it must be admitted that it is a prompt, courageous and drastic piece of work. The Commission was appointed on January 27 to investigate the administration of the public service with a view to effecting economies, and it has now presented an interim report which recommends immediate economies amounting to £2,916,000. As the appropriations for the year came to £24,628,000, the economies recommended represent about 12 per cent. of that total. Some of

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the economies are to be increased in subsequent years, and the investigations are not yet complete.*

The broad grounds on which they arrived at the conclusion that severe retrenchment was the only alternative to default are stated by the Commission in the following passage :

It seems necessary (they say) to refer to the very serious decline in the national income and to the far-reaching effect of this reduction. The economic problems of New Zealand to-day are but a reflex of world-wide conditions, although in the case of New Zealand the effect is particularly severe, in that prices of primary products have fallen to a greater extent than prices of manufactured goods. The latest statistics available indicate that national production has fallen by approximately 30 per cent. as compared with the value in 1928-29, which may be regarded as the "peak year." In that year the value of production is given as £125,300,000 ; in 1929-30 a reduction of £7,000,000 occurred ; while for 1930-31 production fell to approximately £98,000,000, or a decrease of approximately £27,000,000. It is estimated that for 1931-32 a further fall of £8,000,000 will be disclosed, bringing the value down to approximately £90,000,000. In other words, the Dominion has to accommodate itself to a fall in a period of four years of £35,000,000 in the value of production.

Among the more important of the Commission's recommendations are the following :—A 10 per cent. cut in public service salaries and wages, which suffered a similar cut last April ; a reduction in interest and rent proportionate to the reductions in salaries and wages ; a reduction in the number of members of Parliament ; a reduction in the cost of pensions, excluding war pensions ; the abolition of the main highways revenue fund and capital account ; the abolition of education boards, the control of the existing system to be vested in a central advisory board, and other severe economies ; a suggested conversion loan, together with additional stamp duties, in order to reduce

* Speaking in the House of Representatives on April 29, Mr. Stewart said that national expenditure had been reduced by £5,940,000 in three years, and that a further reduction of £4,390,000 was in sight for the current year. Nevertheless, the year was expected to close with a deficit of £2,000,000.

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internal debt charges ; and closer scrutiny of permanent appropriations by Parliament. The National Provident Fund should also, the Commission considered, be put on a self-supporting basis. Family allowances should be abolished, and widespread cuts made in general administration.

The recommendations in the list relating to education and pensions are, of course, highly controversial. Last year Mr. Forbes in his budget speech referred to the £3,355,000 spent on education in 1930-31 as excessive and warned the House that the time had come to economise. But the Commission's economies amount to £370,000—rather more than 10 per cent.—and many of them will be strongly resisted. The proposal to reduce pensions is also unpopular, but an expenditure of £3,000,000 on pensions out of a revenue of less than £25,000,000 could not be justified even if there were no slump. The Commission's figures show how rapid the growth of expenditure has been, though the change in the value of money robs the first item of its value for the purpose of comparison. The figures are as follows:

1914-15, £584,849; 1920-21 (which included war pensions), £3,039,233; 1926-27, £2,672,111; 1928-29, £2,866,584; 1930-31, £3,068,213; 1931-32, £3,220,260. Statistics (the Commission point out) show that over the last two or three years there has been a marked fall in the cost of living, and on this ground allow some reduction in the rate of all classes of pension, i.e. 10 per cent. . . . The alterations recommended should effect a saving of £599,925, and this will reduce the total expenditure on pensions for 1932-33 to approximately £2,700,000. From the evidence submitted it is clear that pension claims must increase, and that it will probably not be long before the total expenditure will again reach the huge sum of £3,000,000.

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